CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati

# GOVERNOR'S ANNUAL MONETARY POLICY STATEMENT 2020


*"ENSURING PRICE AND FINANCIAL STABILITY TO SUPPORT ECONOMIC GROWTH IN TIMES OF COVID-19"*

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*"Ensuring Price and Financial Stability to Support Economic Growth in times of COVID-19"*

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## LIST OF ACRONYMS

| | | |
|---|---|---|
| **AAPP** | - | Asset Purchase Programme |
| **AML** | - | Anti-Money Laundering |
| **BOJ** | - | Bank of Japan |
| **BoE** | - | Bank of England |
| **CAR** | - | Capital Adequacy Ratio |
| **CBE** | - | Central Bank of Eswatini |
| **CFI** | - | Centre for Financial Inclusion |
| **CFT** | - | Countering the Financing of Terrorism |
| **COVID-19** | - | Coronavirus Disease |
| **CPI** | - | Consumer Price Index |
| **CBCD** | - | Central Bank Digital Currency |
| **ECB** | - | European Central Bank |
| **EMDEs** | - | Emerging Market and Developing Economies |
| **ESE** | - | Eswatini Stock Exchange |
| **ESSCOM** | - | Eswatini Competition Commission |
| **FSDIP** | - | Financial Sector Development Implementation Plan |
| **FinTech** | - | Financial Technology |
| **FSRA** | - | Financial Services Regulatory Authority |
| **GDP** | - | Gross Domestic Product |
| **IMF** | - | International Monetary Fund |
| **M1** | - | Narrow money supply |
| **MENA** | - | Middle East and North Africa |
| **MFTA** | - | MENA FinTech Association |
| **MNOs** | - | Mobile Network Operators |
| **M&E** | - | Monitoring and Evaluation |
| **NPL** | - | Non-performing loans |
| **NPS** | - | National Payment System |
| **OPEC** | - | Organisation of Petroleum Producing Countries |
| **PAYE** | - | Pay As You Earn |
| **SACU** | - | Southern African Customs Union |
| **SARB** | - | South African Reserve Bank |
| **STATS SA** | - | Statistics South Africa |
| **SME** | - | Small and Medium Enterprises |
| **UNESWA** | - | University of Eswatini |
| **USA** | - | United States of America |
| **US FED** | - | United States Federal Reserve Bank |
| **VAT** | - | Value Added Tax |
| **WEO** | - | World Economic Outlook |

# 1.0 INTRODUCTION

The Central Bank of Eswatini (CBE/Bank) is tasked with formulating and implementing a sound monetary policy to ensure price and financial stability. In its pursuit of the price stability mandate, and in response to the moderation in inflation in 2019/20, the Bank cut the discount rate by 25 basis points (bps) in July 2019 to 6.5 per cent. Since the beginning of the year 2020, the Bank has slushed the discount rate by a cumulative 250 bps to 4 per cent in an effort to support economic growth amid the threat arising from the coronavirus (COVID-19) epidemic. It effected a 100 bps cut in March 2020 to 5.5 per cent before reducing it further by another 100 bps in its extra ordinary meeting in April 2020 to 4.5 per cent and another 50 bps cut in May to 4.0 per cent.

The World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic as it spread all across the world straining the capacity of healthcare systems and causing an alarming number of deaths. Countries have initiated quarantine, border, port and air travel controls to stop importing cases. Domestically, Government announced a partial lockdown, which included restricted travel, ban of mass gatherings, and closed some businesses to curb community infections.

The prevalence of COVID-19 has reduced global economic activity and has caused supply and demand disruptions. Financial markets have crashed, with most stock markets around the world responding to the COVID-19 pandemic with worrying volatility, as traders have panic-sold (selling their shares) out of fear. Meanwhile most emerging market currencies have depreciated, and a significant fall in the price of Brent crude has been recorded. These developments amongst others are expected to have a negative impact to the countries' economy.

Domestic inflation remained low and stable over the year 2019 and the opening four months of 2020. It averaged 2.6 per cent in 2019 mainly due to the freeze in administered prices over the year. Inflation is projected to be on an upward trajectory in the short to medium-term, with a projection of 3.5 per cent for 2020 and 3.9 per cent for 2021.

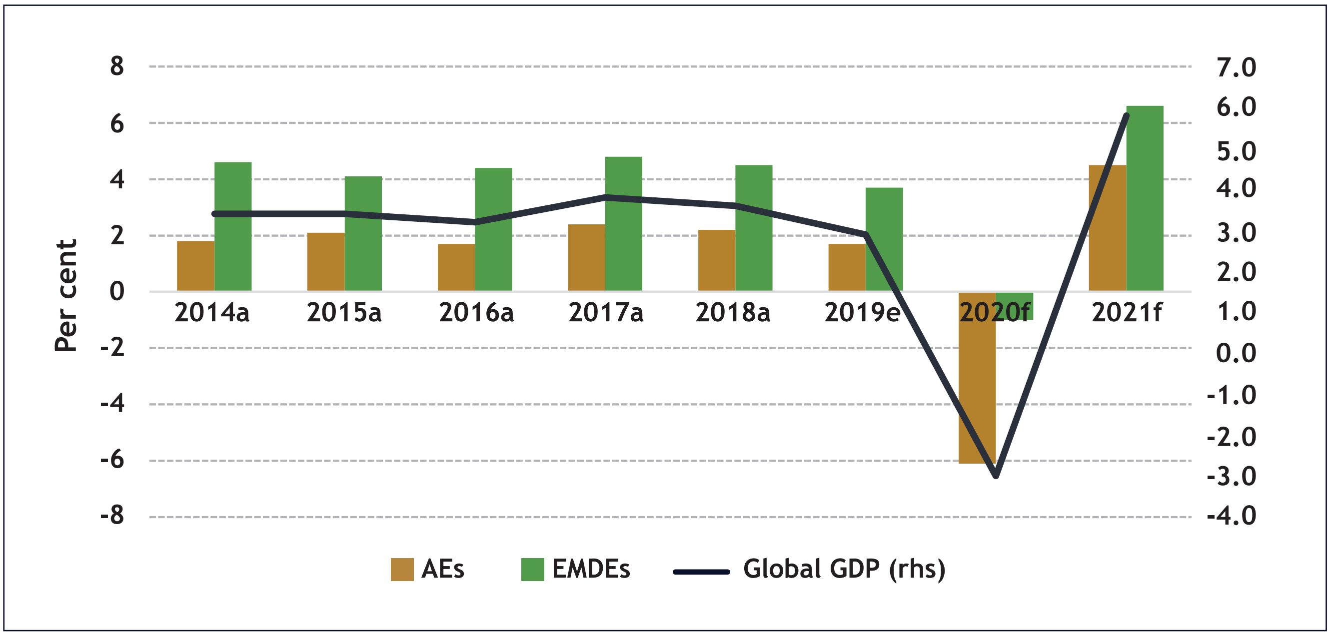
The rest of this Policy Statement is organised as follows: Section 2 reviews the international economic developments whiles section 3 reviews domestic economic developments. The inflation outlook and monetary policy stance is presented in Section 4, while other developments in support of financial and price stability are presented in Section 5, and Section 6 is the conclusion.

## 2.0 GLOBAL ECONOMIC DEVELOPMENTS

### 2.1 Global GDP Growth

According to the International Monetary Fund's World Economic Outlook (WEO) Update released in April 2020, the world economy is expected to enter a recession, reflecting widespread disruptions from the COVID-19 pandemic. Global growth is projected to plummet from 2.9 per cent in 2019 to -3.0 per cent in 2020, far lower than during the 2008-09 global financial crisis. The IMF highlights that global growth is expected to rebound to 5.8 per cent in 2021, reflecting the normalization of economic activity from very low levels. This scenario assumes that the pandemic fades in the second half of 2020 and containment efforts will be gradually unwound further assisted by policy support.

**Figure 1: World; Advanced and EMDEs Output Growth; 2014 - 2021**




*a=actual; e=estimate; f=forecast*
***Source:** IMF World Economic Outlook Update, April 2020*

In both advanced and emerging market economies significant economic policy actions have already been taken across the world, focused on accommodating public health care requirements, while limiting the amplification to economic activity and the financial system. The projected recovery assumes that these policy actions are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains.

The risks for even more severe outcomes, however, are substantial. Effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health. In addition, downside risks to global economic growth remain prominent. These include rising geopolitical tensions in North Africa, the Middle East, US-China tensions in South China Sea, the United States and Iran, intensifying social unrest in other parts of the world, further worsening relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline.

### 2.1.1 Brief on Covid-19 and Possible Economic and Social impact - IMF Synopses

In early March 2020, the IMF produced a synopsis of the on-going world health crises posed by the COVID-19 as part of the IMF's special series in response to the pandemic. According to the IMF, the COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity.

There is extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict. These include the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioural changes, confidence effects, and volatile commodity prices. Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices. Risks of a worse outcome predominate.

The coronavirus epidemic involves both supply and demand shocks. Business disruptions have lowered production, creating shocks to supply. In this regard, consumers and businesses' reluctance to spend has lowered demand.

On the supply side, there is a direct reduction in the supply of labor from unwell workers, from caregivers who have to take care of kids because of school closures, and sadly, from increased mortality. However, an even larger effect on economic activity occurs because of efforts to contain the spread of the disease through lockdowns and quarantines, which lead to a drop in capacity utilization. In addition, firms that rely on supply chains may be unable to get the parts they need, whether domestically or internationally.

On the demand side, the loss of income, fear of contagion, and heightened uncertainty will make people spend less. Companies will continue to downsize, laying off workers, as firms are unable to pay their salaries. These effects can be particularly severe on some sectors such as tourism and hospitality, as seen for example in Italy and Greece.
In addition to these sectoral effects, worsening consumer and business sentiment can lead firms to expect lower demand and reduce their spending and investment. In turn, this would exacerbate business closures and job losses. These effects can be particularly severe on some sectors such as tourism and hospitality (IMF.org., April 2020).

### 2.1.2 Advanced Economies

The IMF April 2020 WEO highlights that, on an annualized basis, GDP growth in the advanced economy group (AEs), where several economies are experiencing widespread outbreaks and deploying containment measures is projected to contract by 6.1 per cent in 2020 following a 1.7 per cent expansion in 2019. In 2021, advanced economies are expected to rebound, edging up to 4.5 per cent as consumer and investor confidence recovers. Most economies in the group are forecast to contract in 2020, including the United States at -5.9 per cent), Japan at -5.2 per cent, the United Kingdom at -6.5 per cent, Germany at –7.0 per cent), France –7.2 per cent, Italy at –9.1 per cent, and Spain projected at –8.0 per cent. Moreover, adverse confidence effects are likely to further weigh on economic prospects (IMF WEO Update, April 2020).

According to the IMF WEO, released on April 2020, the outlook for inflation remains on a downward trajectory. Importantly, the COVID-19 pandemic has severely affected negatively on aggregate demand (for both consumer goods and services). Hence, global inflation will likely pick up albeit marginally in 2021 as the situation improves. For advanced economies, inflation is estimated at 0.5 per cent in 2020, edging lower from 1.4 per cent in 2019.

In 2019, a significant concern that unsettled markets was the fear that monetary policy in the USA, was on an excessive monetary tightening trajectory. Hence, being the largest economy in the world, central banks around the world tend to monitor the monetary policy stance and forward guidance of the US Federal Reserve.

Since mid-June 2019, a number of central banks have signalled a dovish shift in their monetary policy stance, citing muted inflation and increased downside risks to growth. The US Federal Reserve lowered the expected path of its policy rate, while the European Central Bank extended its forward guidance to keep its interest rates at current levels until at least mid-2020.

Supportive financial conditions fostered early signs of stabilization, which reinforced financial market sentiment already shored up by central bank rate cuts. According to the IMF, markets appeared to have internalized the outlook for US monetary policy and the US Fed's shift to steady its expansionary policy stance, following three rate cuts in the final half of 2019. As at end of December 2019, the Fed funds rate stood at 1.5-1.75 per cent.

In 2020, many central banks around the world reviewed their monetary policy outlook in light of the COVID-19 developments. The Fed lowered its target range for interest rates twice in March 2020, by a cumulative 150 basis points to 0-0.25 per cent. The US Federal Reserve also launched a massive $700 billion quantitative easing (QE) programme as part of its emergency move to cushion against the economic effects of the COVID-19 pandemic.

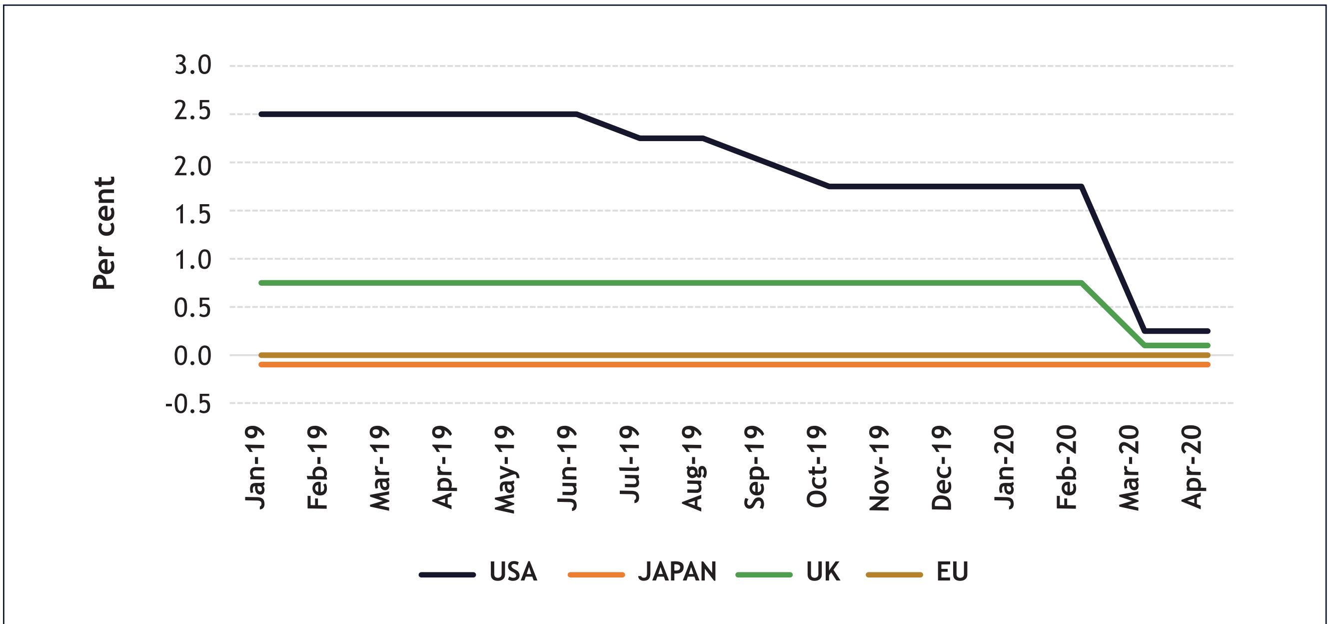
The Fed left the target range for its federal funds rate unchanged at 0-0.25 per cent on 29 April 2020 and reiterated it is committed to using its full range of tools to support the economy hit by the COVID-19 crisis. Policymakers said that the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. The Fed has also taken radical steps to shore up the economy, including $2.3 trillion in loans to support households and employers. Furthermore, by expanding the scope and eligibility for the Main Street Lending Program, and raising its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion (US Federal Reserve, April 2020).

The European Central Bank (ECB) maintained its benchmark-refinancing rate unchanged at zero per cent throughout 2019, whilst ending its €2.6 trillion bond/asset purchase programme (APP) in December 2019. The ECB, at its policy meeting in March 2020 held its refinancing rate at 0 per cent. To counter the serious risks posed by the outbreak and escalating diffusion of the COVID-19, the ECB also launched a new €750 billion APP. In addition, at its April 30 Monetary policy meeting, the ECB left its benchmark interest rate unchanged at zero per cent. The ECB further lowered the interest rate on an emergency loan program for banks (TLTRO III) and offered a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) to provide extra liquidity to banks. Meanwhile, investors were hoping that the central bank would announce an expansion of its bond-buying programme to include junk-rated bonds as nations across the region are likely to face downgrades by credit rating agencies (ECB, May 2020).

Despite signalling for fewer increases in the cost of credit at the beginning of 2019, the Bank of England (BOE) kept its Bank Rate steady at 0.75 per cent throughout the year 2019. The BOE also kept its Bank Rate unchanged in January 2020 at 0.75 per cent but unexpectedly effected a cut of 50 basis points to 0.25 per cent during an emergency meeting on 11 March 2020.

The Bank of England maintained the key bank rate at a record low of 0.1 per cent at its latest MPC meeting on 7 May 2020, in line with market forecasts. Policymakers also left the bond-buying program at £645 billion, although two members voted for a £100 billion increase, in a further sign that fresh stimulus may be under way. The Bank of England has projected a GDP fall in the second quarter of 2020 of 25 per cent and for a contraction over the full year of 14 per cent, which would be the worst since 1706.

**Figure 2: Interest Rates in Advanced Economies**




**Source:** *www.tradingeconomics.com*

In Japan, the Bank of Japan (BOJ) has consistently left short-term interest rates unchanged at -0.1 per cent for at least the last two years. Policy makers at their December 2019 meeting also kept the target for the 10-year government bond yield at around zero per cent. The BOJ left its key short-term interest rate unchanged at -0.1 per cent in an emergency meeting on 16 March 2020, but increased the annual pace of exchange traded fund (ETF) buying to JPY 12 trillion from JPY 6 trillion and other risky assets to contain the economic fallout from the COVID-19 pandemic. Moreover, the

BoJ during its April 2020 meeting removed a limitation on buying government bonds so that 10-year yields will remain at 0 per cent, and ramped up its purchases of corporate debt to JPY 20 trillion from around JPY 7 trillion. In so doing the BoJ, joined other global central banks in their unprecedented expansion of monetary stimulus to mitigate the economic fallout from the COVID-19 pandemic. Meanwhile, policymakers kept its key short-term interest rate unchanged at -0.1 per cent (Bank of Japan, January 2019 –May 2020).

The significant actions of large central banks in recent weeks include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover. The synchronized actions can magnify their impact on individual economies and will also help generate the space for emerging market and developing economies to use monetary policy to respond to domestic cyclical conditions.

Supervisors should also encourage banks to renegotiate loans to distressed households and firms while maintaining a transparent assessment of credit risk (IMF World Economic Outlook, April 2020).

### 2.1.3 Emerging Markets and Developing Economies

The IMF highlights that, in the emerging market and developing economies (EMDEs) group, GDP is projected to contract by 1.0 per cent in 2020 following a 3.7 per cent expansion in 2019. Excluding China, the growth rate for the group is expected to contract by 2.2 per cent in 2020. However, on a positive note, EMDEs' GDP is expected to accelerate to 6.6 per cent in 2021. Worth noting regarding this particular group is that, all countries face a health crisis, severe external demand shock, dramatic tightening in global financial conditions, and a plunge in commodity prices. All the above-listed factors will have a severe impact on economic activity in commodity exporters (IMF WEO, April 2020).

Regarding the emerging markets and developing economies group, inflation is expected to drop to 4.6 per cent in 2020 from 5.0 per cent in 2019 amid subdued aggregate demand as the Covid-19 pandemic impact economic activity.

Going forward to 2021, emerging markets inflation is forecast to remain somewhat steady at 4.4 per cent (IMF World Economic Outlook, April 2020).

According to the IMF, at this time when economies are impacted by the coronavirus pandemic worldwide, monetary policy needs to be supportive and injection of liquidity can play an important role in sustaining firms and jobs by supporting demand. Financial sector supervision should aim to maintain the balance between preserving financial stability and sustaining economic activity. Economies facing financing constraints to combat the pandemic and its effects may require external support. Broad-based fiscal stimulus can pre-empt a steeper decline in confidence, lift aggregate demand, and avert an even deeper downturn. However, the latter would most likely be more effective once the outbreak fades and people are able to move about freely (IMF WEO, April 2020).

## 2.2 Commodity Markets

Oil prices trended somewhat higher by close of 2019, climbing more than $3 per barrel in December 2019 to settle at $65.85 per barrel.

Meanwhile, the IMF highlights that, Oil prices have plunged by about 50 per cent, as of April 2020, reaching 18-year lows, reflecting a slump in global growth. Commodity prices have decreased sharply since the release of the October 2019 World Economic Outlook (WEO), hit hard by the COVID-19 outbreak in late January 2020. This reversed a previous upward trend supported, in part, by better economic prospects. Since the outbreak, energy and metal prices have fallen sharply as measures to contain the pandemic, first in China, then worldwide substantially reduced travel and dented global industrial activity.

Moreover, the situation has been exacerbated by the breakdown of the Organization of Petroleum Exporting Countries and other major oil producers (OPEC+) agreement regarding production cuts in early 2020. US Western Texas Intermediate (WTI) Crude oil price tumbling to the negative and suppliers having to negotiate with buyers to take storage of Crude at nil terms. This happened amid evaporating demand, an unprecedented supply glut leading to a lack of storage facilities.

Oil prices continued to fall sharply over the month of April 2020, with Brent crude tumbling to its lowest levels since 2002, settling at $23.34 a barrel. On the other hand, U.S Western Texas Intermediate Crude (WTI) was at $16.52 a barrel (www.indexmundie.com, 20 May 2020).

Most other commodity prices have also taken a downward trajectory; one exception is precious metals, such as gold, which averaged $1,683.17 an ounce in April 2020, have benefited from the risk-off sentiment (www.indexmundie.com, 20 May 2020).

## 3.0 SOUTH AFRICAN ECONOMIC DEVELOPMENTS

### 3.1 Economic Growth

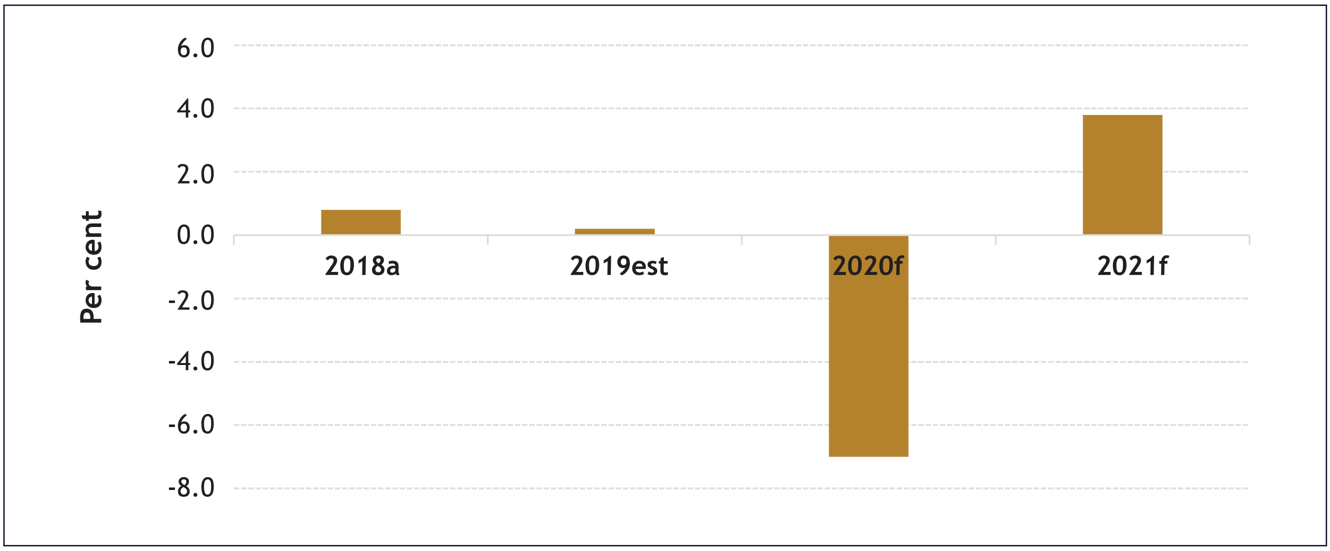
The South African economy continued to perform below expectation in 2019, growing by 0.2 per cent, the least since a 1.5 per cent contraction in 2009 following a 0.8 per cent expansion in 2018. South Africa's annual real GDP growth rate in 2019 was boosted by increased economic activity in finance, real estate and business services. The agriculture, forestry and fishing industry decreased by 6.9 per cent in 2019, and the mining and quarrying industry declined by 1.9 per cent in 2019.

On a quarterly basis, the South African GDP shrank by an annualized 1.4 per cent (quarter on quarter) in the three months to December 2019, following an upwardly revised 0.8 per cent contraction in the previous quarter. The worst rolling blackouts in the country's history affected severely the following industries; transport, storage & communication, trade, catering & accommodation, construction, utilities, manufacturing, agriculture, forestry & fishing and government services. In contrast, output rebounded for mining, boosted by platinum group metals, iron ore and gold. Furthermore, the financial sector grew faster in the last quarter of 2019.

The South African Reserve Bank (SARB) in May 2020 indicated that the COVID-19 outbreaks has major health, social and economic impacts, presenting challenges in forecasting domestic activity. The COVID-19 pandemic is likely to result in weaker demand for exports and domestic goods and services, but its impact on the economy could be partly offset by lower oil prices. The SARB also expects disruptions to supply chains and to normal business operations. In this regard, the SARB expects the South African economy to contract by 7 per cent in 2020 before rising to 3.8 per cent in 2021 and 2.9 per cent in 2022. Apart from the COVID-19 pandemic, electricity supply constraints and other sources of uncertainty are expected to keep economic activity muted.

According to the April 2020 IMF WEO, the South African economy is expected to contract by 5.8 per cent in 2020, down from a previous forecast of 0.8 per cent growth projected in the January 2019 IMF WEO, and 4 per cent in 2021, up from an earlier prediction of 1 per cent growth. Amongst other factors, in January 2020 the IMF cited persistent structural constraints and deteriorating public finances that are holding back business confidence and private investment as reasons for low growth in South Africa. The IMF cites severe external demand shocks as one of major reasons for the gloomy outlook in EMDEs (April 2020 IMF WEO).

**Figure 3: South Africa GDP Growth - 2018 to 2021**

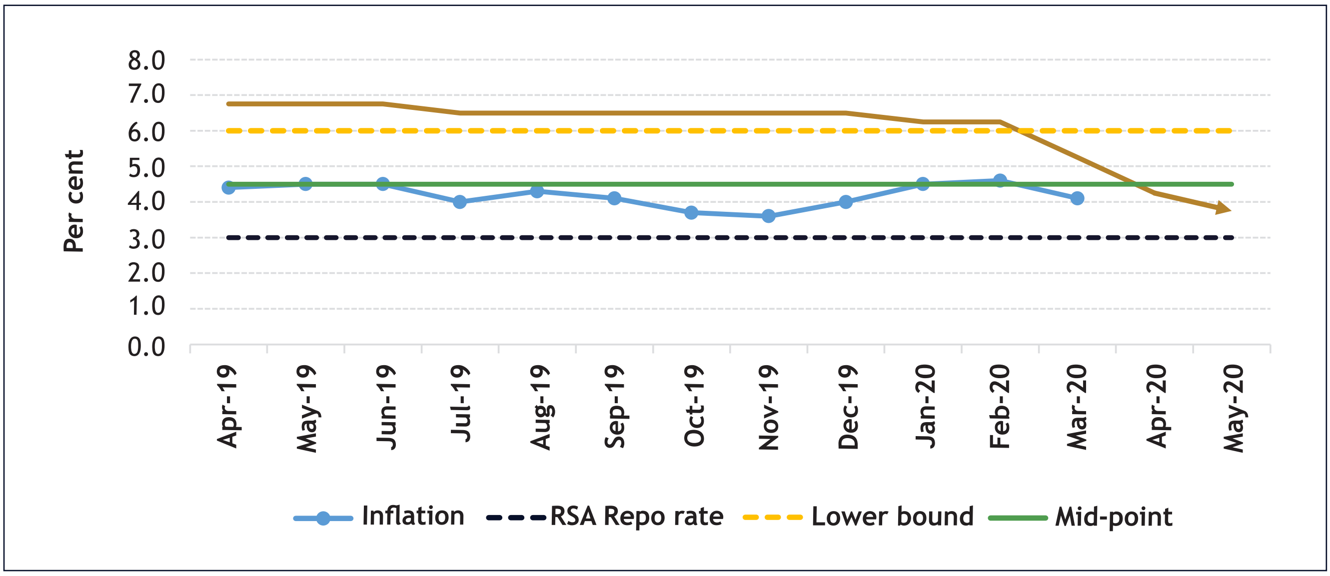



*South Africa actual & estimate sourced from STATS SA; forecasts from SARB

## 3.2 Monetary Policy

The SARB held its repo rate at 6.75 per cent for the first half of 2019 before reducing it by 25 bps to 6.5 per cent in July 2019. Since the beginning of the year 2020, the SARB has cut the repo rate by a cumulative 275 bps. It effected a 25 bps cut in January 2020 taking the repo rate to 6.25 per cent before further slashing it by 100 bps to 5.25 per cent in March 2020, amid growing uncertainty over the impact of the coronavirus pandemic on the already fragile economy. The SARB held an extra ordinary meeting in April 2020 where it cut the repo rate by another 100 bps to 4.25 per cent before a further 50 bps cut in May 2020 to 3.75 per cent. Policymakers said that low inflation has created space for monetary policy to respond to deteriorating economic conditions.

**Figure 4: South Africa Repo Rate and Inflation Rate Trends**




**Source:** *South African Reserve Bank*

### 3.3 Consumer Prices

The South African headline consumer price inflation averaged 4.13 per cent in 2019, down from 4.62 in 2018, and it was within the SARB target range of 3 to 6 per cent for the whole year. The SARB forecast averages at 3.4 per cent for 2020, and 4.4 per cent for 2021 and 2022. In May 2020, the SARB stated that overall risks to the inflation outlook appear to be to the downside. The annual inflation rate in South Africa fell to 4.1 per cent in March from 4.6 per cent in February 2020 and below market expectations of 4.3 per cent. It was the lowest inflation rate since last December, as prices slowed.

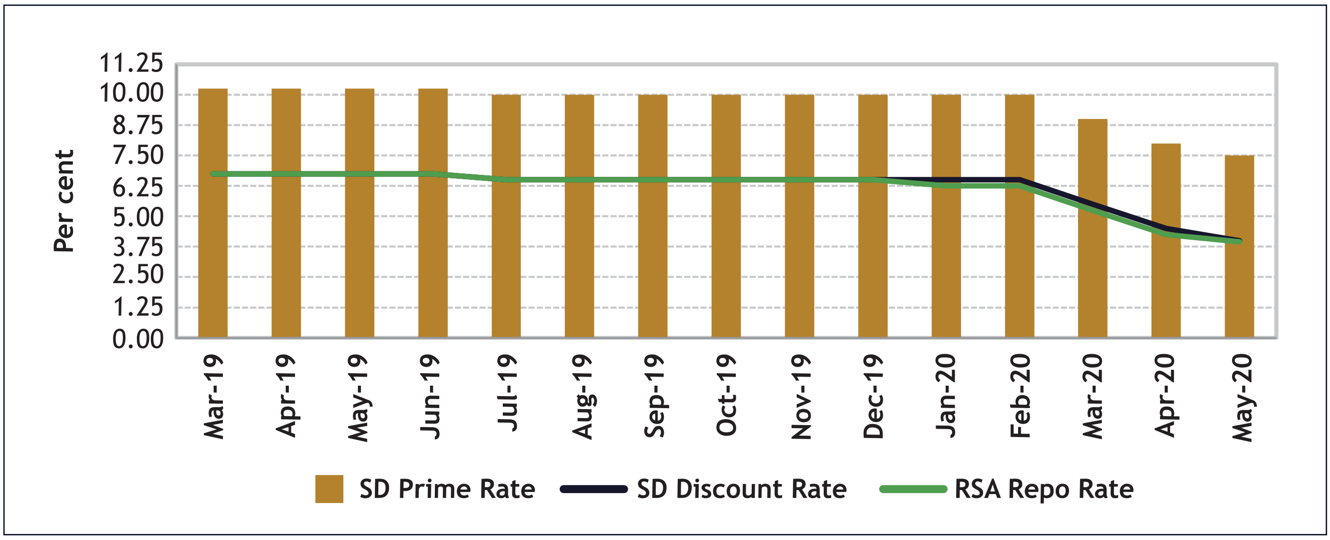
Furthermore, implied path of policy rates over the forecast period generated by the SARB's Quarterly Projection Model (QPM) indicated two repo rate cuts of 25 basis points in the next two quarters of 2020. The SARB warned that monetary policy however, cannot on its own improve the potential growth rate of the economy or reduce fiscal risks (South African Reserve Bank, May 2020).

# 4.0 DOMESTIC ECONOMIC DEVELOPMENTS

## 4.1 Monetary Policy Transmission to the Wider Economy

Over the year ended May 2020, the Bank's monetary policy stance continued to be accommodative and largely stable. The main objective was to provide a supportive environment for domestic economic activity as prices remained suppressed over the year. Notably, headline inflation averaged 2.6 per cent during the twelve months of 2019, compared to 4.8 per cent in 2018. The Central Bank therefore relaxed monetary policy in July 2019, thereafter left it stable and relaxed it again in March, April and May 2020 by a cumulative 275 bps points over the period under review. Consequently, the discount rate declined by 25 bps from 6.75 per cent to 6.50 per cent in July 2019. The discount rate was lowered further by a 100 bps in March 2020, 100 bps points in April and 50 bps in April 2020 to 4.0 per cent in an effort to cushion the economy particularly from the negative impact of the COVID-19 pandemic. Throughout 2019, the discount rate remained at par with the South African repo rate. However, in January 2020, the 25 basis points differential emerged as the South African repo rate declined whilst the local discount rate was left unchanged. Similarly, the Banks' prime lending rate declined by the same margin from 10.25 per cent in June 2019 to 10 per cent in July 2019, to 9.00 per cent in March 2020, to 8.00 per cent in April 2020 and to 7.5 per cent in May 2020.

**Figure 5: Interest Rate Trends; March 2019 - March 2020**




**Source:** *Central Bank of Eswatini and Other Depository Corporations*

## 4.2 Annual Real GDP Developments

Economic activity, as measured by real Gross Domestic Product GDP, is estimated to have decelerated to 1.3 per cent in 2019 from 2.4 per cent in 2018. The slowdown in economic activity is mainly attributed to a poor performance in the primary and tertiary sectors.

### (a) Primary Sector Developments

Economic activity in the primary sector is estimated to have declined by 4.6 per cent in 2019 down from an increase of 7.4 per cent in 2018. Crop production fell by 8.5 per cent largely due to a significant decrease in sugarcane and maize production. Following two years of bumper harvest in the post El

Nino induced drought, sugarcane production receded by 8.2 per cent to 5.68 million tonnes in 2019 from a record high of 6.20 million tonnes in 2018. The decrease was largely attributed to unfavourable weather conditions which affected cane yields. Erratic weather conditions characterised by hailstorms and heatwaves, coupled with persistent crop pests such as fall army worms resulted in a 15 per cent decrease in maize output in the period under review. The above notwithstanding, there were positive developments in other cash crops such as cotton and banana production.

Animal production remained on a negative territory as farmers continued to restock livestock that was heavily depleted during the El Nino induced drought in 2016. The livestock subsector is estimated to have declined by 2.4 per cent in 2019 following a decrease of 3.7 per cent in the previous year. Forestry output, on the other hand, grew at a slower pace of 1.8 per cent in 2019 compared to 8.1 per cent the previous year. Growth in the primary sector was further dampened by the poor performance in the ‘mining and quarrying subsector’ which, contracted by 17.9 per cent in 2019 following a decline of 26.5 per cent in the previous year. This was largely attributed to coal production, which declined by 23.9 per cent to 109,926 metric tonnes in 2019, the lowest output recorded in 18 years.

**(b) Secondary Sector Developments**

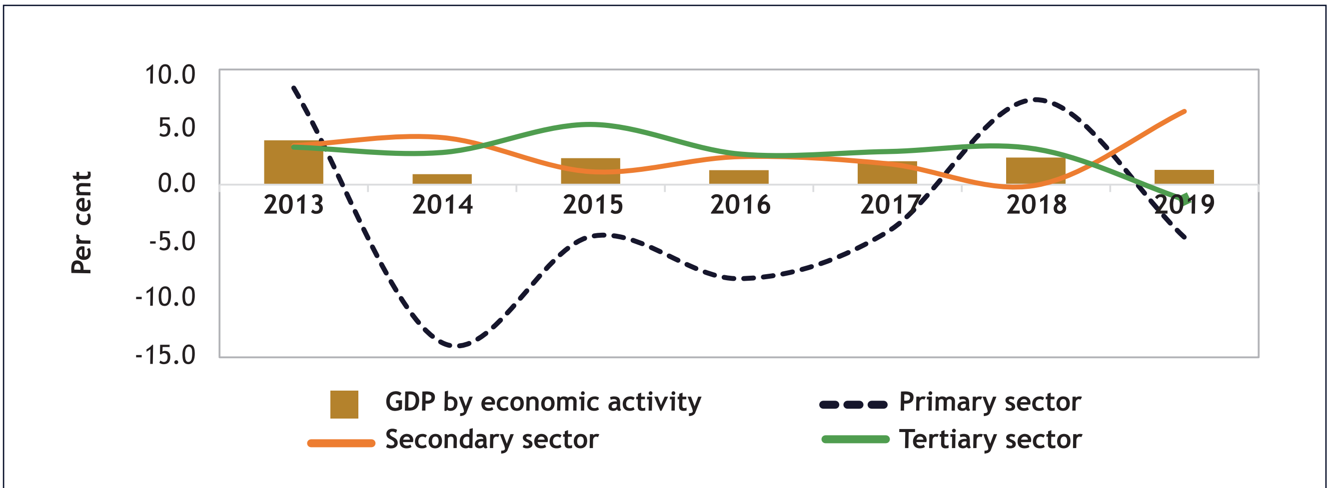
The secondary sector rebounded from -0.1 per cent in 2018 to 6.4 per cent in 2019 largely driven by strong performance in the manufacturing sector. After recording a moderate decline of 0.4 per cent in 2018, the manufacturing sector expanded by 7.3 per cent largely buoyed by notable growth in the ‘manufacturing of beverages’, ‘manufacturing of textiles’ and ‘manufacturing of wood and wood products’ subsectors. These sub-categories that are export-oriented, benefitted from an improvement in market conditions particularly in the South African market over the period under review. On the contrary, food processing decreased by 3.6 per cent in 2019 from a growth of 10.6 per cent in the previous year. The decline emanated from a 9.5 per cent decrease in sugar production, which was broadly in line with developments at agricultural level resulting in lower output volumes of sucrose.

Electricity and water supply recorded marginal increases of 2.3 and 1.4 per cent, respectively, in the period under review. These sub-sectors benefitted from above normal rainfall, which supported water levels in all dams and reservoirs in the country, some of which, are used for hydro-power generation as well as treated water supply. Construction activity, on the other hand, contracted further by 1.1 per cent in 2019 following a marginal decrease of 0.3 per cent in 2018. Fiscal challenges continued to weigh heavily on the implementation rates of infrastructural projects particularly, in the first half of 2019 and culminated in a slowdown in construction activity as it is broadly driven by public infrastructural projects activity. Private sector activity was also muted as major private-sector-led infrastructure projects were reaching completion stages with no newer projects of significant magnitude.

**(c) Tertiary Sector Developments**

The tertiary sector is estimated to have contracted by 1.3 per cent in 2019 from an increase of 3.1 per cent in 2018. The services sector developments were dominated by the effects of the government cash-flow challenges. Fiscal consolidation measures such as a hiring and wage freeze weighed heavily on real disposable incomes and affected sectors linked to the government operations such as ‘wholesale and retail’, ‘public administration’, ‘tourism activities’ and 'professional and technical services'. The wholesale and retail subsector is estimated to have contracted by 3.3 per cent in 2019 from an increase of 3.4 per cent the previous year. With the government employment numbers retreating slightly due to a hiring freeze, the output for public administration decreased by 2.8 per cent in 2019 compared to an increase of 1.0 per cent in 2018. Output for tourism activities is estimated to have decreased by 6.7 per cent in 2019 following another contraction of 11.9 per cent in 2018. This was largely attributed to a slowdown in both government sponsored as well as donor-funded non-governmental organisations' conferencing activities.

**Figure 6: GDP Developments 2013 - 2019**




**Notes:** *The GDP numbers for 2013-2018 are based on the Central Statistics Office (CSO) provisional numbers released in August 2019. The estimates for 2019 are based on the GDP Projections by the Macro-Forecasting Team (MEPD & CBE) review.*
**Source:** *CSO, MEPD and CBE*

## 4.3 GDP Growth Outlook

The short-medium term growth outlook is expected to remain challenging. A temporary relief on government cash-flow challenges is expected following an improvement in the South African Customs Union (SACU) revenues even though fiscal consolidation measures would remain unabated. Sectors linked to the government operations, which were severely affected over the previous two years are projected to recover modestly in 2020. However, emerging debt sustainability concerns are projected to limit growth prospects in the medium term. Growth prospects have further been hampered by the global outbreak of the COVID-19 which has resulted in a global meltdown affecting both supply and demand of goods and services.

Due to COVID-19 preliminary projections indicate that GDP will decline to -6.2 per cent in 2020 compared to an initial pre-COVID-19 projection of 2.8 per cent (published in January 2020). The secondary and tertiary sectors are the main drivers for the significant downward revision. The secondary sector is projected to decline by 9.6 per cent (compared to previous projected growth of 3.8 per cent) in 2020. The poor performance in the secondary sector is mainly linked to anticipated declines in manufacturing and construction subsectors, which would be largely due to global supply chain disruptions that would affect supply of inputs for production while weak global demand would weigh heavily on uptake of sales particularly for exported-oriented manufactured products. Labour supply disruptions due to COVID-19-related containment measures would also disrupt production in labour-intensive manufacturing segments such as food processing and textile manufacturing.

The tertiary sector is projected to decline by 5.7 per cent in 2020 (compared to a growth of 1.3 per cent in the earlier projections). The tertiary sector would mainly be affected by travel restrictions and other COVID-19-related containment measures enlisted in the lockdown restrictions that came into effect in March 2020. Mostly affected sub-sectors include: 'tourism related activities', 'transport services', 'wholesale and retail' and 'professional and technical services'. Weak domestic growth prospects would also further undermine growth in the 'financial services' and 'general public administration' subsectors.

Subject to a moderate recovery as lockdown measures prospectively get relaxed as the year progresses, GDP is projected to recover to 2.1 per cent in 2021 before declining to 1.5 per cent in the subsequent year. The modest recovery in 2021 is largely due to base effects. Sectors like manufacturing are expected to recover at a faster pace than other sectors such as tourism activities, which are expected to remain on negative territory for a longer spell in light of risks associated with them. An anticipated deterioration in the fiscal position in the short-to-medium-term would weigh heavily on growth outcomes especially because postponed fiscal consolidation would become inevitable.

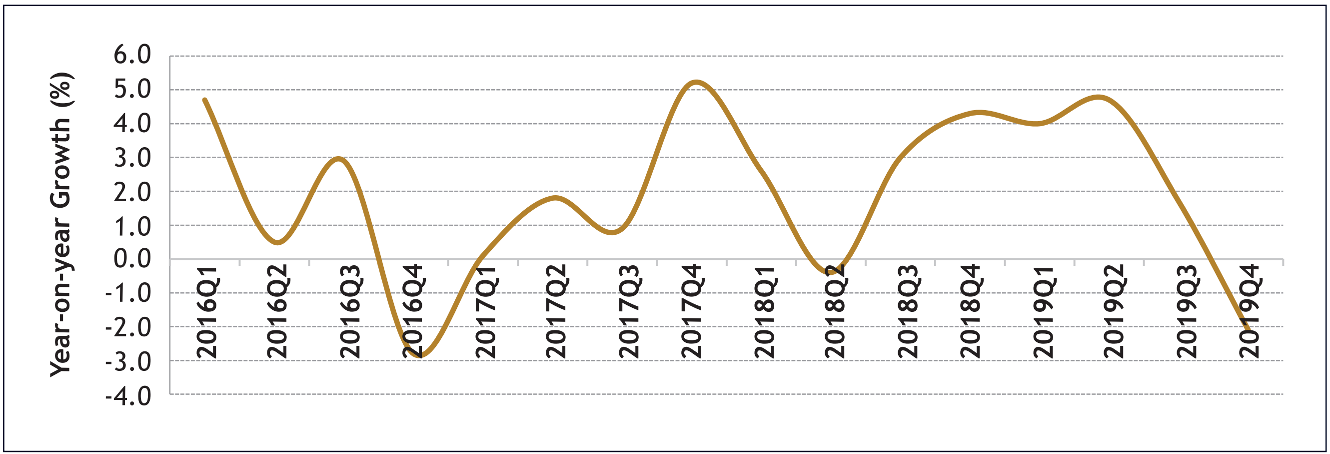
### 4.4 Quarterly GDP Developments

When analysed on a high frequency basis, economic activity reflected a slowdown in the second half of 2019. Quarterly GDP numbers, produced by the Central Statistics Office, show that GDP contracted by 2.1 per cent, on a year-on-year comparison, seasonally adjusted, in the fourth quarter of 2019 from a revised 0.4 per cent in the third quarter of 2019. The weak growth outcome mainly emanated from poor performance in the secondary sector. Following a strong performance in the first half of the year, the secondary sector receded by 9.5 per cent, year-on-year, in the quarter ended December 2019. This was largely due to poor performance in the manufacturing sector. Significant decreases were observed in the 'manufacturing of sugar', 'manufacturing of textiles', 'manufacturing of wood and wood products' and 'manufacturing of paper and paper products' subsectors. In addition, construction activity remained constrained declining by 0.6 per cent, year-on-year, in the last quarter of 2019 following another decrease of 1.0 per cent in the previous quarter.

Growth in the primary sector remained modest at 0.7 per cent, year-on-year, in the last quarter of 2019 slightly lower than 1.0 per cent in the previous quarter. Developments in the primary sector were mixed. On a positive note, there were notable increases in the 'mining and quarrying' and 'livestock' subsectors. On the contrary, there was a slowdown in 'crop production' and 'forestry and logging' activities.

The poor performance in the secondary sector was somewhat counteracted by improved performance in the tertiary sector. The tertiary sector rose by 3.7 per cent, year-on-year, in the fourth quarter of 2019, rebounding from a decrease of 2.0 per cent in the previous quarter. Positive performance was mainly observed in the 'wholesale and retail', 'transportation services', 'information and communication' and 'professional and technical services' subsectors. However, economic activity in the 'financial and insurance services' subsector contracted further by 6.5 per cent, year-on-year, in the quarter under review following another decline of 4.6 per cent in the previous quarter.

**Figure 7: Quarterly GDP Seasonally Adjusted, Year-on-Year Growth Rates; 2016Q1 to 2019Q4**

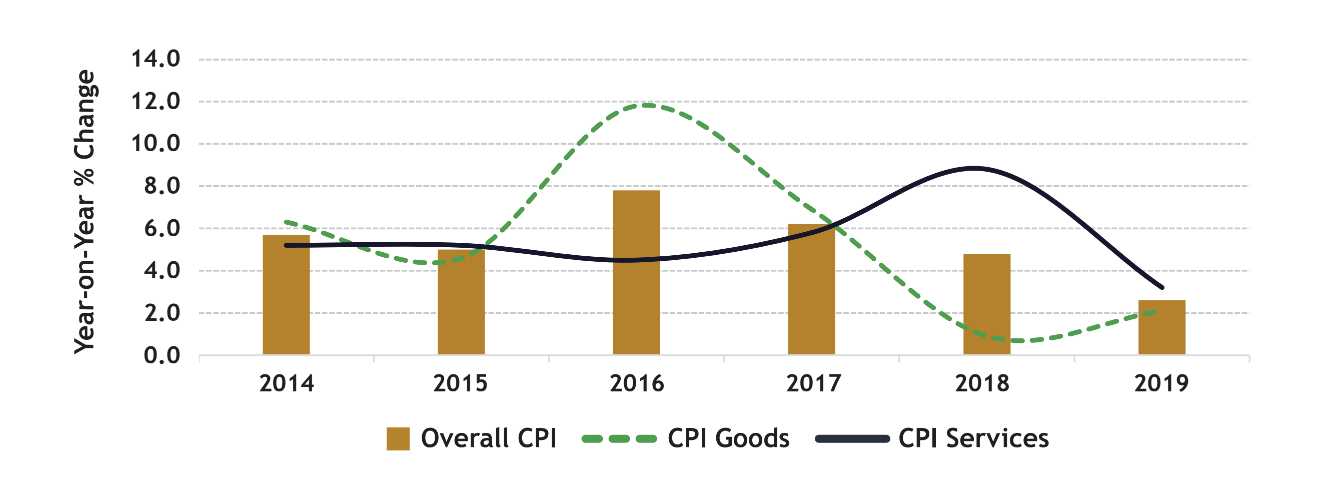



**Source:** *Central Statistics Office (CSO)*

## 4.5 Price Developments

Price increases were relatively contained in 2019 compared to 2018. The annual headline consumer inflation averaged 2.6 per cent in 2019 down from 4.8 per cent in the previous year. Deflationary pressures were mainly observed in prices for services. The CPI for services grew at a slower rate of 3.2 per cent in 2019 down from a high of 8.8 per cent in 2018. This moderation was mainly attributed to a significant slowdown in prices for 'housing and utilities', which averaged 3.7 per cent in 2019 compared to 12.4 per cent in the previous year. The government issued a directive to freeze all utilities' tariffs in 2019. This translated into a no increase in electricity and water prices in the period under review compared to double-digit increases that were linked to multi-year tariffs effected in the previous year. In the previous financial year, electricity and water tariffs were hiked by an average of 15.0 and 13.5 per cent respectively. On housing, increases in prices for rentals were reported to be lower at 3.8 per cent in 2019 compared to 13.0 per cent in the previous year.

Figure 8: Annual Inflation Developments 2014 to 2019




**Source:** *Central Statistics Office (CSO)*

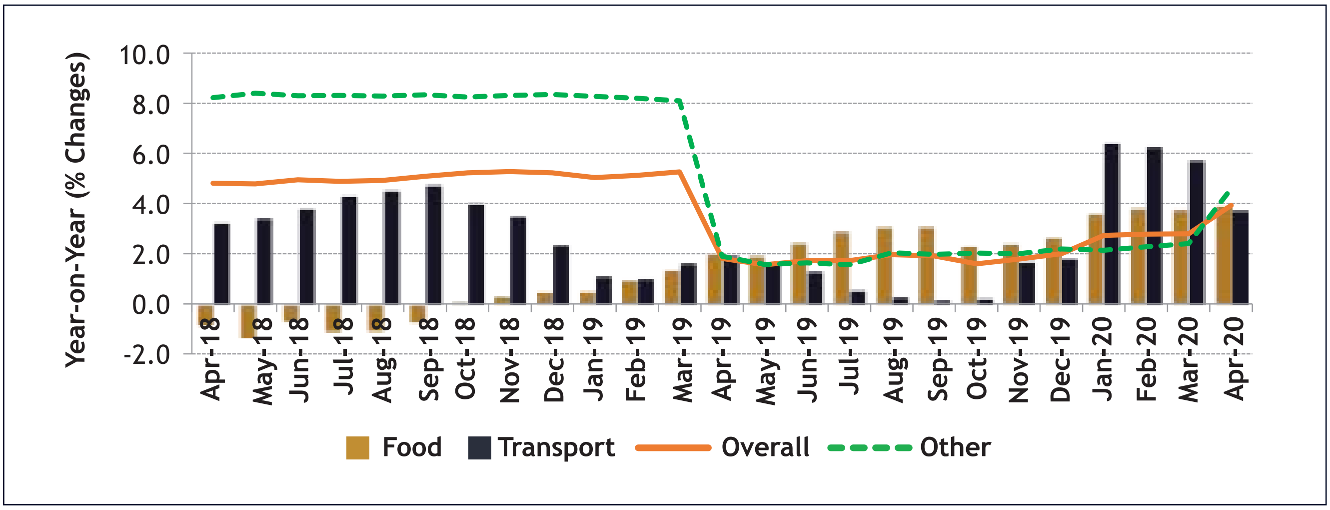
In addition to the favourable developments in 'housing and utilities', deflationary pressures emanated from transport inflation. Transport prices grew at a slower rate of 1.1 per cent in 2019 compared to 4.0 per cent in the previous year. Transport inflation mainly benefitted from slower increases in the prices of fuels and lubricants as they rose marginally by an average of 0.6 per cent in 2019 compared to 10.4 per cent in the previous year. Even though there was an increase of 80 cents per litre with respect to fuel levy, effected in November 2019, cumulatively, fuel prices only rose by 30 cents in the period under review.

Modest inflationary pressures were, however, observed in the price index for 'food and non-alcoholic beverages'. After recording an average of no growth in the previous year, food inflation ticked up slightly to average 2.2 per cent in 2019 largely on account of increases in the prices of 'bread and cereals', 'oils and fats' and 'sugar and sugar products'. The pickup in food prices mainly resulted from increases in food commodity prices regionally. According to the South African Futures Exchange (SAFEX), white and yellow maize prices rose by 30.1 and 21.7 per cent, respectively, in 2019, while wheat prices grew by 11.8 per cent. These increases at regional level were partially passed-through to the domestic economy which remain a net importer of most food products particularly cereals. Of note, is that some food prices are regulated hence, some of the increases in international commodity prices were not fully transmitted to the domestic food price developments, particularly, white maize prices. Bread prices rose slightly following the approval of a 15 per cent increase in bread prices that became effective in November 2019.

In addition to food inflation, moderate inflationary pressures were observed in the price indices for 'clothing and footwear' and 'education'. The clothing and footwear index grew by 0.8 per cent in 219 up from a deflation of 1.3 per cent in 2018. On the other hand, education prices rose by 8.0 per cent in the period under review compared to a growth of 7.4 per cent in the previous year. The increase was largely due to tertiary education fees, which rose by an average of 7.8 per cent in 2019 compared to 3.6 per cent in the previous year.

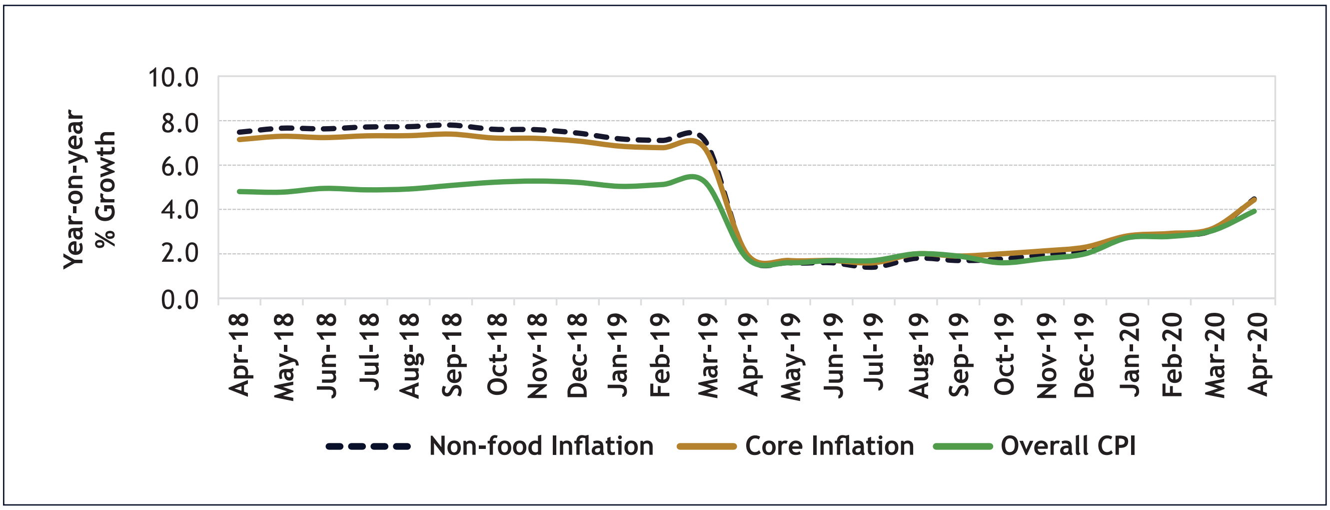
**Figure 9: Inflation Trends: April 2018 to April 2020**




**Source:** *Central Statistics Office*

Core inflation which is CPI excluding food, auto-fuel and energy retreated from 6.7 per cent in the previous year to 3.1 per cent in the period under review reflecting that underlying inflationary pressures were on the downside in 2019 in line with the significant moderation in the growth rates for services' prices.

**Figure 10: Headline versus Core Inflation; April 2018 to April 2020**




**Source:** *Central Statistics Office*

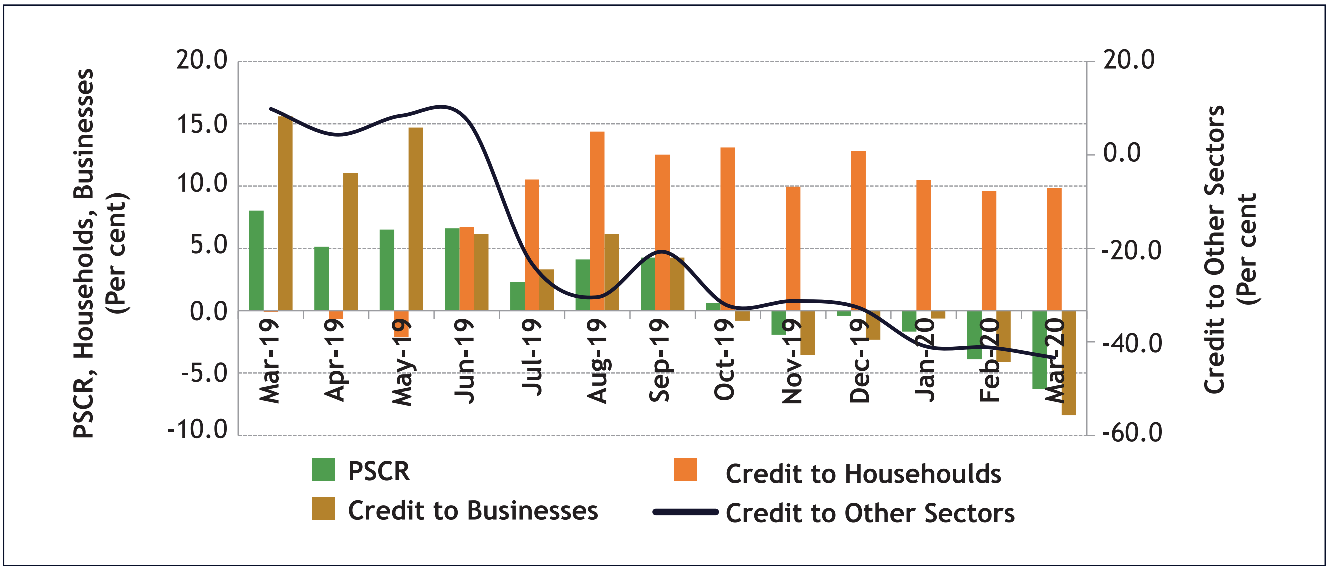
In the first months of 2020, inflationary pressures were observed primarily coming through administered prices. Administered prices rose to 3.2 per cent in January 2020 from 1.6 per cent in December 2019. Among the increases in administered prices was the 80 cent/litre increase in fuel levy effected in November 2019, a 15 per cent increase in the prices of bread and a 30 per cent increase in prices of short distance public transport fares. The latter resulted in an acceleration in transport inflation from 1.8 per cent in December 2019 to 6.4 per cent in January 2020.

## 4.6 Private Sector Credit

### (a) Total Private Sector Credit

Despite the relatively lower borrowing rates, credit extended to the private sector fell by 6.3 per cent over the year ended March 2020. This was a notable turnaround from the 8.0 per cent growth recorded in the previous year. The decline in credit was largely discernible in the business sector which is the main engine for economic growth while credit to Households increased. Annual credit to the business sector declined by 8.4 per cent in March 2020 compared to 15.6 per cent growth recorded the previous year. The fall in credit to businesses was mainly reflected in the distribution & tourism (mainly in the sugar industry). However, increases were recorded in the agriculture & forestry, construction and manufacturing sectors.

**Figure 11: Private Sector Credit Annual Changes; March 2019 - March 2020**

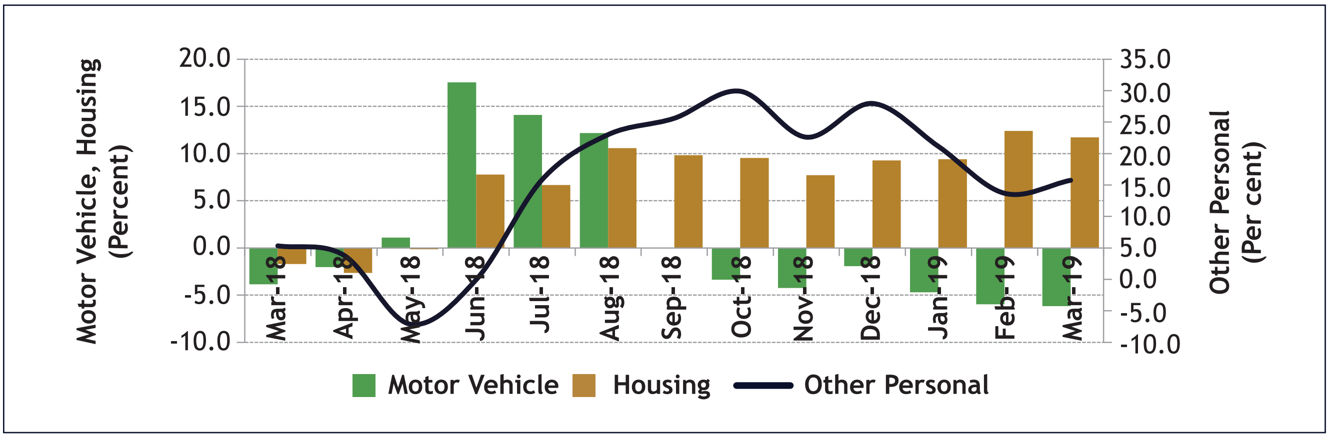



**Source:** *Central Bank of Eswatini and Commercial Banks*

### (b) Household Credit

Year-on-year credit extended to the household sector recovered from a fall of 0.1 per cent recorded in the previous year and registered growth of 9.9 per cent in March 2020. Within the categories of the household sector, the rise was ascribed to an improvement in other personal (unsecured) loans and housing loans while motor vehicle loans continued to fall. Other personal loans grew by 15.8 per cent in March 2020, a notable rise from the 5.3 per cent growth recorded the previous year. Credit for housing purposes increased by 11.7 per cent in March 2020 reversing from a fall of 1.7 per cent reflected the previous year. Credit extended for motor vehicles worsened from a fall of 3.9 per cent registered in the previous year to a fall of 6.2 per cent in March 2020.

**Figure 12: Household Credit by Product Annual Changes; March 2019 - March 2020**




**Source:** *Central Bank of Eswatini and Other Depository Corporations*

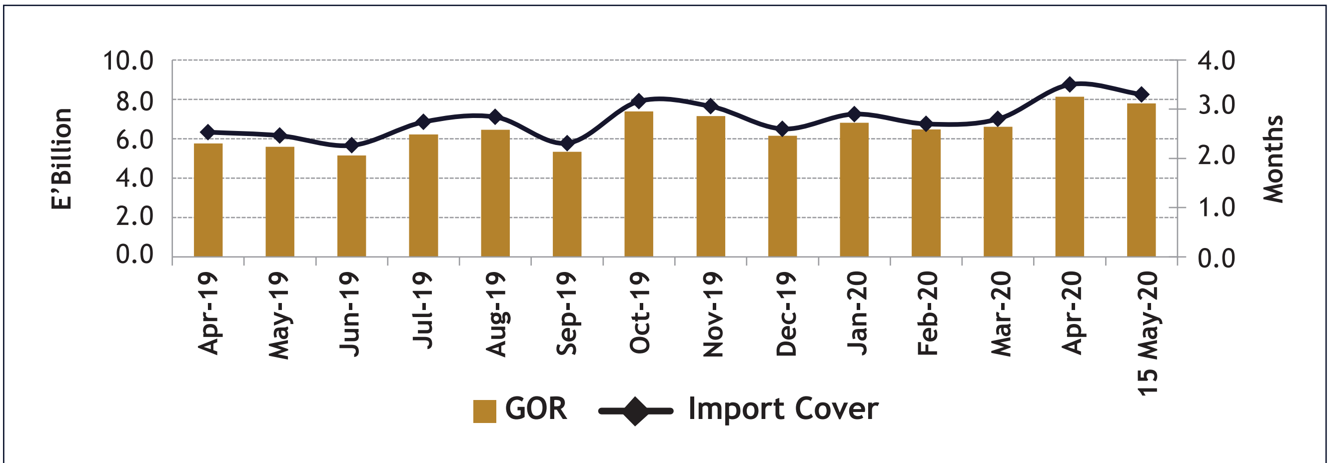
**(c) Private Sector Credit Outlook**

Private sector credit growth in the near term is likely to be constrained by the uncertain and decelerating global economic environment fuelled by the coronavirus pandemic. However, credit growth may somewhat be supported by lower borrowing rates and the existing favourable rains that may generate credit demand from the agriculture and related sectors.

## 4.7 Gross Official Reserves

Gross official reserves rebounded from a year-on-year fall of 17.7 per cent recorded the previous year and grew by 41.3 per cent at the end of April 2020 to reach E8.1 billion. The recovery in reserves was largely a result of higher SACU receipts during the 2020/21 fiscal year at E8.3 billion compared to E6.3 billion during the 2019/20 fiscal year. The reserves were also boosted by inflows from foreign exchange trades with local banks. Consequently, at the end of April 2020, the reserves were sufficient to cover an estimated 3.5 months of imports, substantially higher than the 2.5 months recorded the previous year. At this level, the import cover turned around to be above the internationally recommended level of 3 months. However, the import cover was still below the CBE and CMA targets of 4 months.

**Figure 13: Gross Official Reserves & Import Cover; April 2019 - 15 May 2020**




**Source:** *Central Bank of Eswatini*

Although SACU receipts for the 2020/2021 fiscal year indicate a significant increase of 31.7 per cent, short to medium-term outlook for the reserves is negative. This will emanate from the anticipated negative impact of the coronavirus pandemic on regional trade, which will reduce the SACU revenue pool as well as exert upward pressure on government expenditure.

The Central Bank continued to purchase foreign currency acquired through export proceeds from the local banks in an endeavour to build reserves. Since this exercise started in May 2018, an equivalent of E5.193 billion has been raised as at the end of March 2020. The dominating currency is the US dollar followed by the Euro. During the financial year from April 2019 to March 2020, the total volume of trades amounted to E4.539 billion, with un-matured forward positions at the end of the period amounting to E952 million. Moral suasion was used when the exercise began in May 2018 and positive feedback was received from the local banks. The regulation that enforced the banks to sell the foreign currency to the Central Bank was enacted in 2019. This intervention has assisted in maintaining the country's reserves above critical levels and buffered the effect of net outflows.

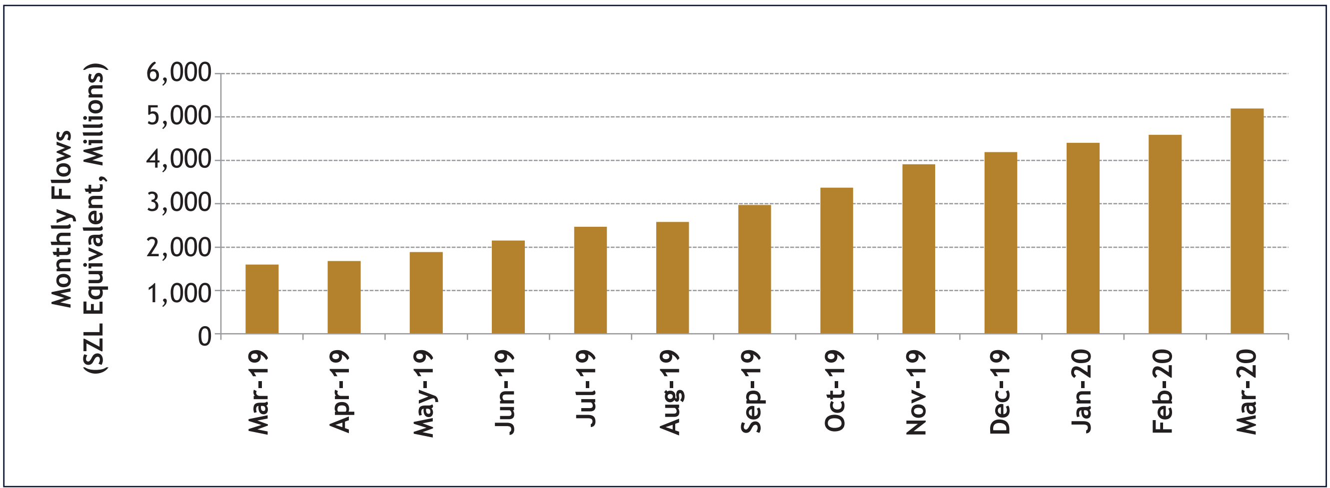
### Table 1: Total Forex Purchases by Currency since Inception to 31 March 2020

| CURRENCY | EUR | GBP | USD | JPY | TOTAL |
|---|---|---|---|---|---|
| Foreign Currency | 35,694,682.46 | 4,568,950.00 | 309,886,958.02 | 15,000,000.00 | |
| SZL Equivalent | *584,458,060.37* | *86,140,218.90* | *4,521,150,094.15* | *1,932,989.69* | *5,193,681,363.12* |

### Table 2: Total Un-matured Forwards as at 31 March 2020

| CURRENCY | USD Forwards | EUR Forwards | GBP Forwards | TOTAL |
|---|---|---|---|---|
| Foreign Currency | 50,618,100.00 | 4,850,000.00 | 1,700,000.00 | |
| SZL Equivalent | 829,604,553.07 | 88,900,835.00 | 33,562,655.00 | 952,068,043.07 |

### Figure14: Cumulative FX Flows from 01 April 2019 to 31 March 2020



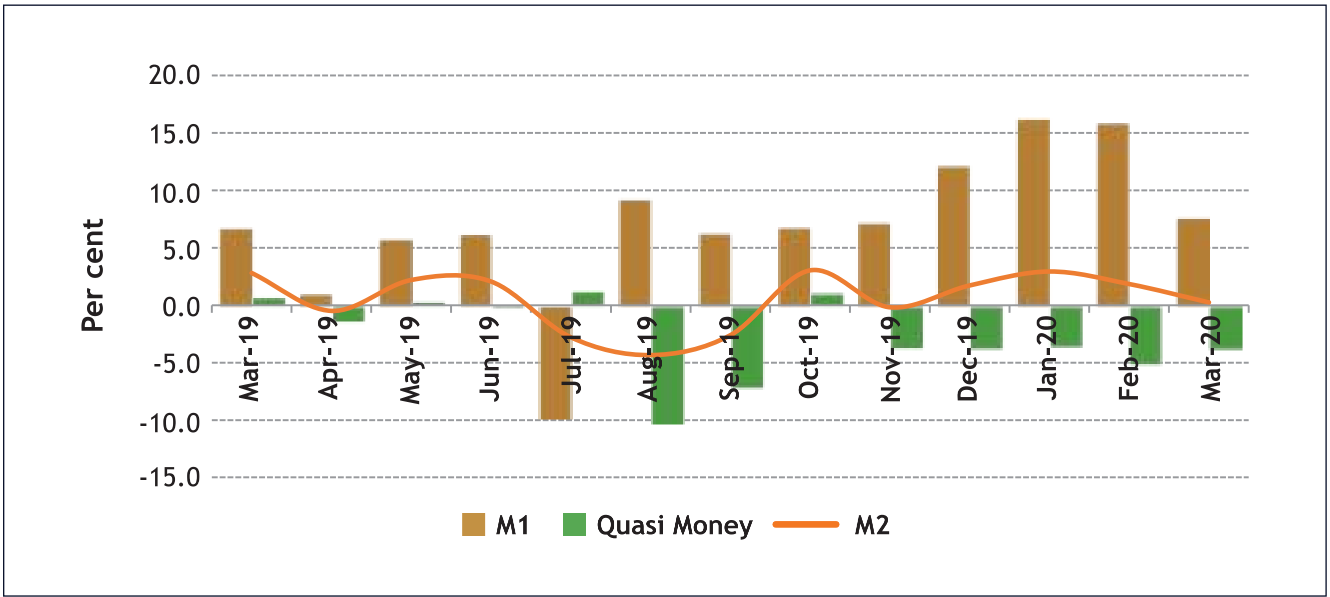

**Source:** *Central Bank of Eswatini*

### 4.8 Broad Money Supply

Broad money supply (M2) growth reached 0.2 per cent year-on-year in March 2020, indicating a deceleration from the 2.8 per cent rise recorded the previous year. The growth was underpinned by narrow money supply (M1) while quasi money supply weakened over the year under review. M1 which is a measure of transactional balances expanded by 7.6 per cent over the year as transferable deposits increased while Emalangeni in circulation fell. This was a slight expansion compared to growth of 6.8 per cent in M1 observed in the preceding year. Corresponding to the fall in private sector credit extension, quasi money supply which is an indicator of depositors' propensity to save for investment purposes, declined by 3.8 per cent over the year, in contrast to the 0.7 per cent growth recorded in the past year. Over the review year, quasi money growth rates hovered around negative territory in most of the months due to a fall in term deposits while savings deposits improved.

Broad money supply growth in the near term is expected to continue trending downwards exacerbated by the impact of both the domestic and global economic downturn largely driven by the coronavirus as production and exports fall.

**Figure 15: Money Supply Annual Changes; March 2019 - March 2020**



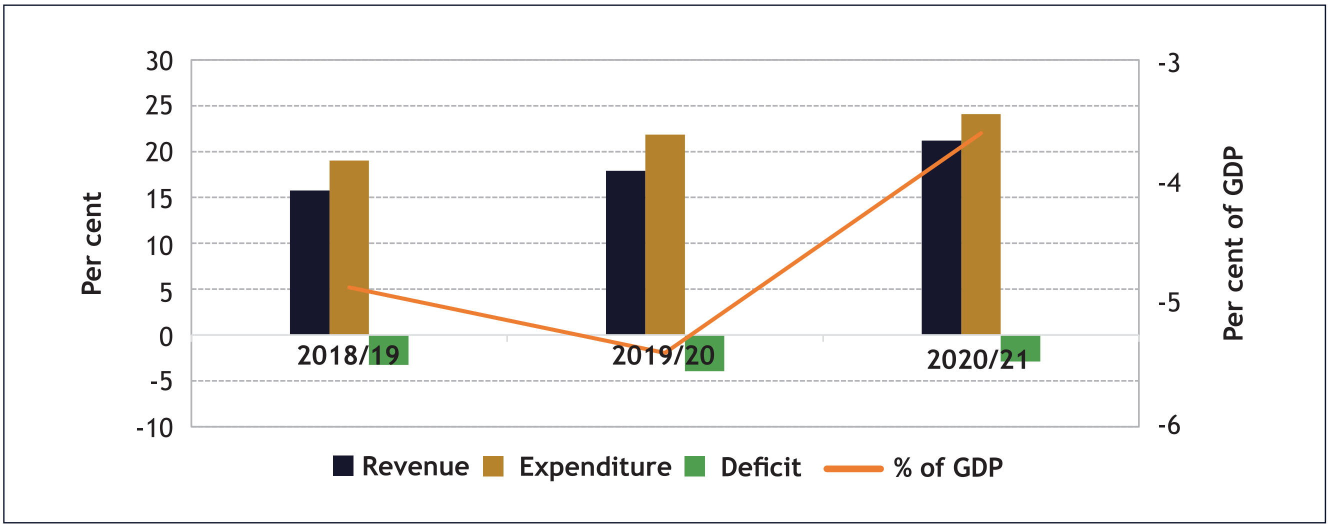

**Source:** *Central Bank of Eswatini and Other Depository Corporations*

### 4.9 Fiscal Sector

- **Budget Review**

The National Budget for 2020/21 was presented by the Minister of Finance to Parliament on 14 February 2020. The budget was presented in the wake of cash flow challenges and persistent arrears' accumulation. The budget aims at reducing the structural and fiscal imbalances which has led to a great weakening of confidence in our economy, both internationally and domestically. The budget also continues on the fiscal consolidation path by finding ways and means to improve revenue inflows while trying to hold expenditure effectively constant. Budget estimate for 2020/21 show a contracting fiscal gap of E2.9 billion deficit which translates to 3.6 per cent of GDP.

## Figure 16: Budget Summary; 2018/19 to 2020/21




Source: *Central Bank of Eswatini and Other Depository Corporations*

- **Budget Strategy**

The Economic turnaround strategy proposed by the Government prioritised five key growth sectors in the economy and Government has committed to these sectors as seen through the resource distribution by this budget. These key sectors are: ICT & Education, Infrastructure and Software Development Potential, Energy & Mining, Tourism, Manufacturing and Agro-processing and Agriculture.

The budget depicts a positive outlook for 2020 as the deficit narrowed to 2.9 per cent of GDP down from 3.9 per cent in the previous year. This is expected to contribute positively to economic growth backed by an anticipated relief in the Government's fiscal position. The relief is linked to the clearing of arrears coupled with a rebound in Government spending and thereby stimulating domestic demand and promoting economic growth.

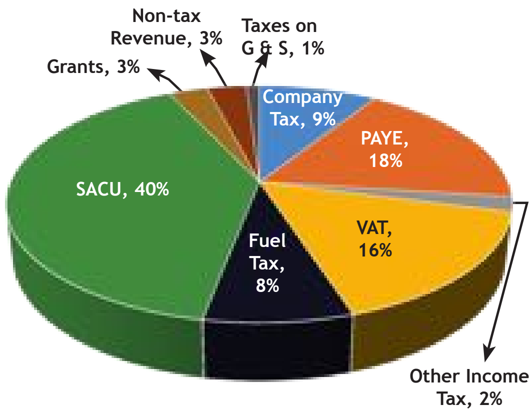
- **Total Expenditure**

Total expenditure is expected to reach E24.1 billion in 2020/21 from a revised estimate of E21.8 billion in 2019/20. Of this, 28 per cent accounts for capital expenditure whilst 72 per cent represents recurrent expenditure. Wages and salaries is the largest expenditure item accounting for 31 per cent of the total budget.

- **Government's Resource Envelope**

A total of E21.2 billion is expected to be collected in 2020/21. Revenues from SACU will amount to E8.3 billion while domestic revenues are expected to be E12.3 billion. Grants are projected to reach E553.1 million. However, the slowdown in economic activity due to the COVID-19 pandemic is likely to impact negatively on domestic revenue collections.

## Figure 17: Government Major Revenue Components 2020/21




Source: *Ministry of Finance*

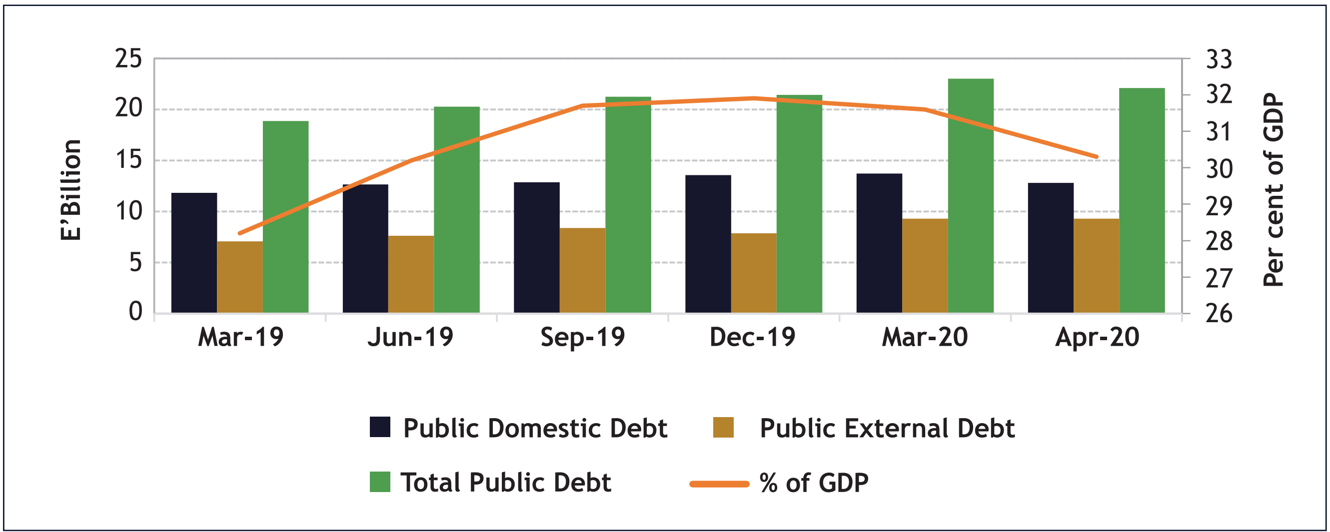
- **Financing**

Government will need to borrow E2.9 billion as the revenue will not be enough to cover all the expense. This borrowing will be in the form of loans, treasury bills and bonds payable over the short to long-term. The Ministry of Finance, in consultation with the Bank, has developed and published an issuance plan for 2020/21 fiscal year, which was guided by the potential demand for Government Securities as informed by the domestic debt market size.

- **Public Debt**

Preliminary debt figures indicate that total public debt stood at E22.1 billion, an equivalent of 30.3 per cent of GDP as at the end of April 2020. This shows an increase of 16.9 per cent when compared to E18.9 billion recorded in March 2019. Preliminary figures for external debt stood at E9.3 billion as at the end of April 2020, an equivalent of 12.8 per cent of GDP. This shows an increase of 31 per cent when compared to E7.1 billion recorded in March 2019. While a number of drawdowns were made on project loans, the increase can mainly be attributed to a substantial weakening of the Lilangeni against major currencies in which, the country's liabilities are denominated.

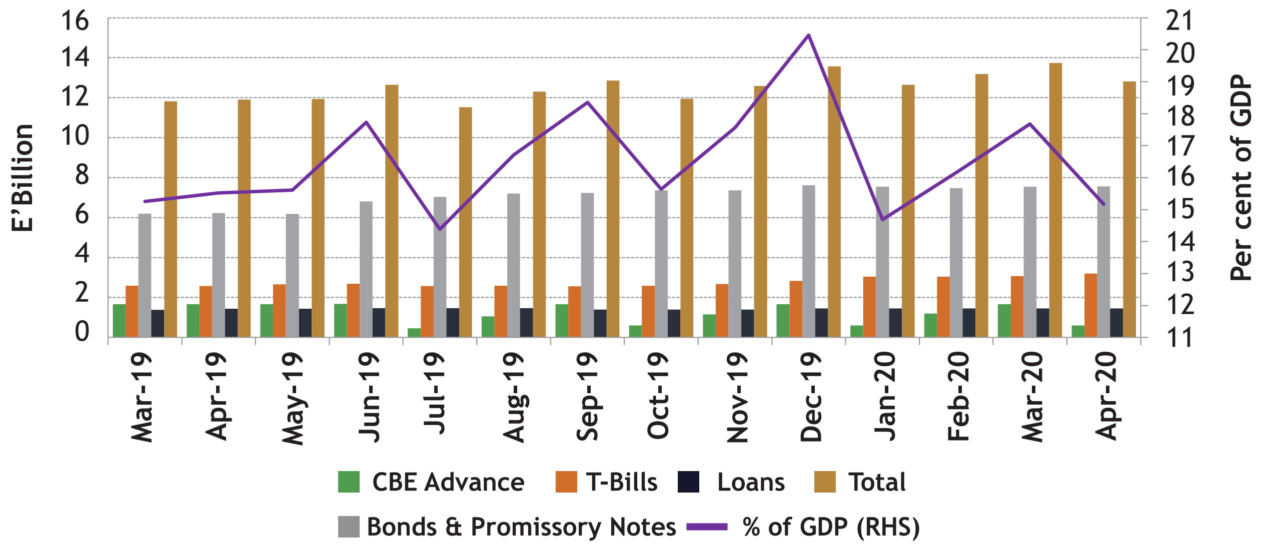
**Figure 18: Total Public Debt; March 2019 to April 2020**




**Source:** *Ministry of Finance & Central Bank of Eswatini*

Outstanding domestic debt stood at E12.8 billion at the end of April 2020, an equivalent of 17.6 per cent of GDP. This shows an increase of 8.5 per cent when compared to the E11.8 billion recorded in March 2019. The increase is mainly attributed to an improved uptake of Treasury Bills and continued issuance of bonds during the period.

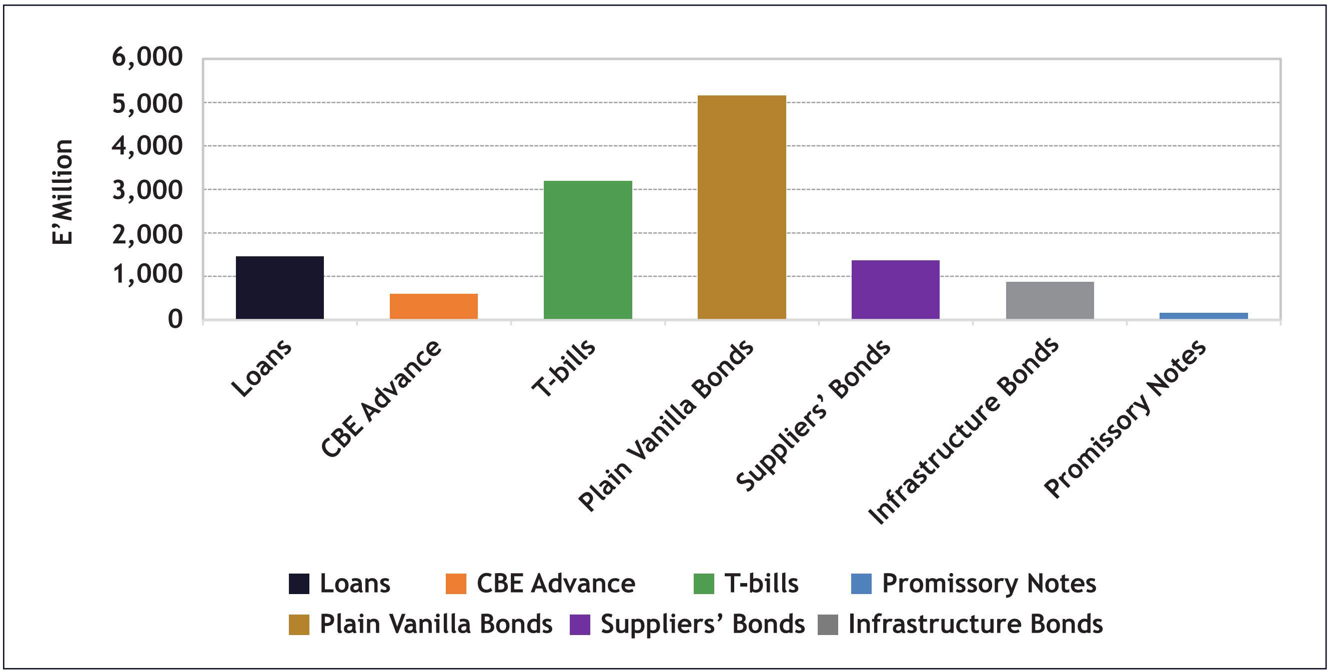
**Figure 19: Public Domestic Debt; March 2019 to April 2020**




**Source:** *Ministry of Finance & Central Bank of Eswatini*

During the fiscal year 2019/20 the Government of the Kingdom of Eswatini continued to be faced with cash flow challenges resulting in some of the arrears remaining outstanding. In an endeavour to assist Government to meet some of her recurrent expenditure, the Bank offered an Advance to Government as enshrined in the CBE Order 1974, as amended. The Bank offered the Advance to Government on a quarterly basis, which is paid in full upon receipt of SACU funds. This has assisted to sustain government liquidity requirements on major recurrent expenditures. In an initiative to develop the local market and finance the liquidity gap, Government continued to issue short and long-term securities in the local market through the Central Bank of Eswatini (as Agent to Government). The existing issuance Programme listed with the Eswatini Stock Exchange (ESE) during the financial year 2018/19 was utilised for the issuance of the securities. The Infrastructure Bond Programme continued in conjunction with the Plain Vanilla mainly earmarked for infrastructure developmental projects.

### Figure 20: Domestic Debt Market Instruments as at 30 April 2020




**Source:** *Ministry of Finance & Central Bank of Eswatini*

The Programmes had a total of E1.41 billion raised as at 31 March 2020 through public auctions and private placements. Of these, a total of E0.71 billion was raised through public bond auctions indicating an allotment rate of 71 per cent. The subscription rate was recorded at 99 per cent. Suppliers bonds issued amounted to E1.21 billion which was used to clear some of Government arrears. On the other hand, Treasury Bills Issuances continued in 2019/20 and were mainly used to finance Government cash shortfalls. In November 2019, the volumes issued on the 91-day T-Bill were reduced to E30 million a week from E60 million and the amount on the other T-Bill tenures were increased to E50 million mainly driven by market demand for the papers. Out of the total outstanding domestic debt portfolio, Treasury bills account for 22 per cent, with bonds accounting for 52 per cent (Infrastructure, Plain Vanilla and Suppliers' Bond Programmes), Promissory Notes at 1 per cent, Domestic loans at 13 per cent and CBE Advance accounting for 12 per cent.

The Ministry of Finance, in consultation with the Bank, has developed the issuance calendar for the 2020/21 fiscal year, which was guided by the potential demand for Government securities as informed by the domestic debt market size.

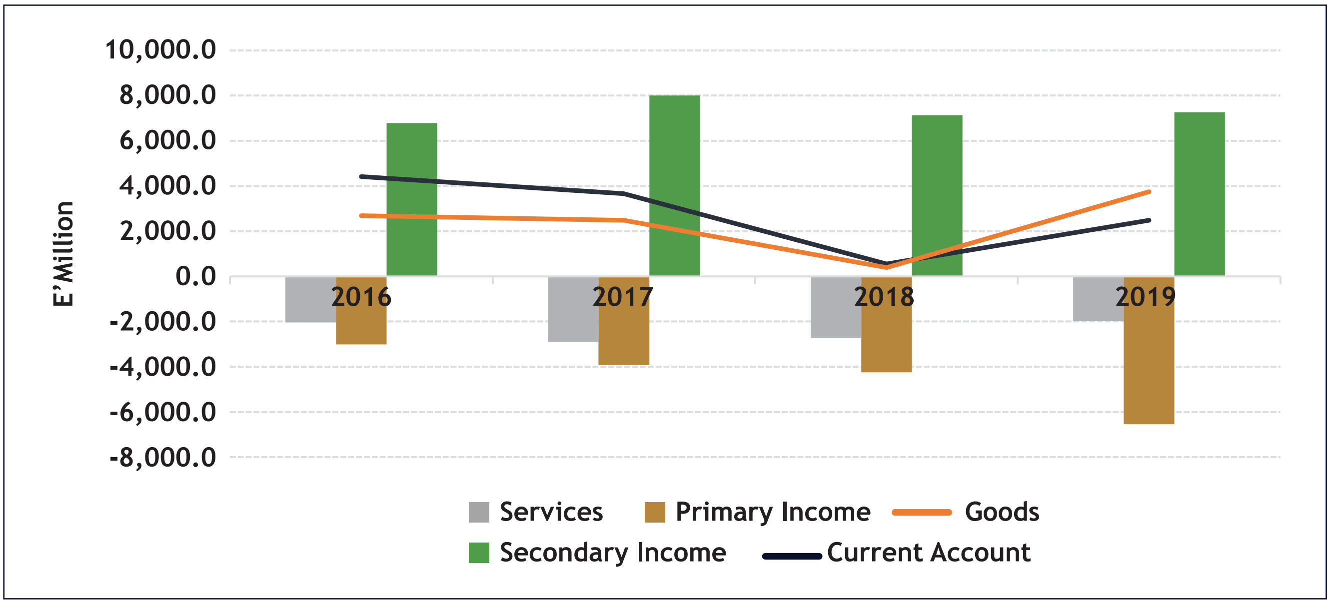
## 4.10 External Sector

In 2019, the country recorded a E119.3 million overall balance of payments deficit indicating that the country's foreign reserves assets were depleted by a net E119.3 million, a mild decline when compared with the E742.2 million decline in reserve asset acquisitions in 2018.

Preliminary estimates show that the current account registered a E2.487 billion surplus in 2019 following a E550.2 million surplus in 2018. Explaining the increase in the surplus was a combined positive balance in goods and services of E1.767 billion recorded in the period under review, versus notable negative net balances in the previous two years. The goods and services balance accounted for 71 per cent of the net inflows in the current account. The 2019 surplus was equivalent to 3.8 per cent of the country's GDP from 0.9 per cent in 2018.

The trade account recorded a surplus amounting to E3.747 billion in 2019, from a E387.2 million surplus in the previous year. The surplus was largely explained by the country's exports, which grew faster than imports during the period under review. Merchandise export earnings amounted to E28.679 billion in 2019, which marked a notable year-on-year growth of 17.8 per cent. Export sales made to the South African market accounted for 66.5 per cent of total earnings. Worth noting is that export earnings for the year 2019 partly benefitted from the weaker Lilangeni against major world currencies coupled with a resilience by exporters through increased sales. Export earnings from soft drink concentrates made up 47.3 per cent of the total export base followed by sales from 'Sugar and sugar confectionary', which contributed 23.5 per cent towards total export earnings. The country's import bill grew by 4.1 per cent year-on-year to E24.931 billion in 2019. South Africa's share of the total bill amounted to 77.2 per cent. Fuel and electrical energy contributed 17.2 per cent towards Eswatini's total imports for 2019 and grew by an annual 15.5 per cent to E4.279 billion. About 80.7 per cent of this class of imports were sourced from the South African market. The services account remained in a deficit, amounting E1.981 billion, 27.4 per cent lower than the deficit documented in 2018.

**Figure 21: Current Account Components; 2016 - 2019**




**Source:** *Central Bank of Eswatini*

The primary income account recorded a deficit of E6.544 billion, a wider deficit from the E4.241 billion deficit recorded in 2018. The increased deficit in the account was due to a rise in investment income outflows, mainly dividend payments by resident companies to shareholders abroad. Outflows in the year amounted to E8.335 billion, 35.7 per cent higher than outflows for 2018. Inflows, on the other hand, dipped by 5.9 per cent in 2019 to record E1.791 billion. The secondary income account recorded a surplus of E7.265 billion, an increase of 1.9 per cent compared to the previous year, mainly on account of the increase in the country's share of SACU receipts from E5.844 billion in 2018/19 to E6.316 billion in 2019/20 fiscal year.

The country's financial account flows culminated in a positive net balance of E1.800 billion, depicting that the country was a net lender during the year following a net E26.2 million lending balance in 2018. The increase in the acquisition of foreign assets was mainly driven by positive 'other investment' and portfolio account balances. Foreign direct investment in the country posted a net borrowing balance amounting to E1.561 billion in 2019, on account of a E1.882 billion increase in foreign liabilities incurred of which 80.2 per cent of the liabilities comprising of the year's earnings that were reinvested back into the Eswatini economy.

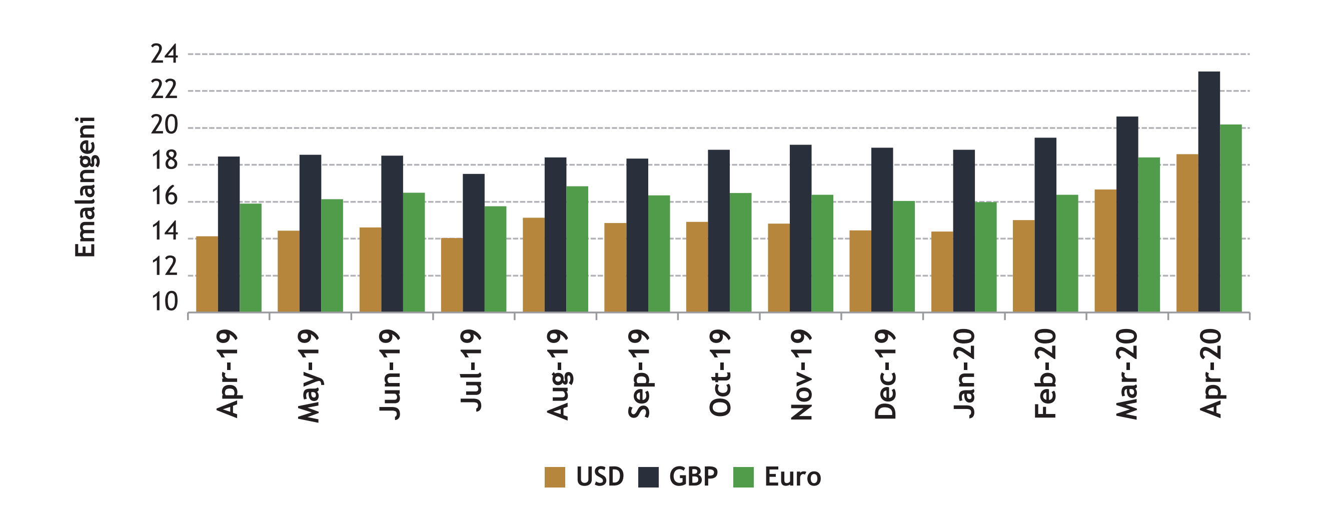
### 4.11 Exchange Rates Developments

The external value of the Lilangeni generally depreciated in 2019, under the fixed exchange rate policy which pairs the Lilangeni and the Rand on a one-to-one basis. The local unit opened the year at an average of E13.87 in January 2019 and closed the month of December 2019 at an average of E14.44 to the US Dollar. Compared against the previous year, the local currency fell significantly by 9.2 per cent against the US Dollar. The significant depreciation in the local unit was largely a regional phenomenon generally driven by a large capital outflow in South Africa perpetuated by low economic growth and unstable power supply, which had a negative impact on manufacturing and mining activity. International fundamentals in the form of the US-China trade war and concerns about weaker global growth negatively influenced performance of the local unit but featured with less prominence. In the first quarter of 2019, however, the Lilangeni rallied against the US Dollar following a presentation of a better than feared National Budget by South Africa and the accommodative monetary policy stance adopted by advanced economies, which induced an appetite for emerging market currencies, hence the Rand. Despite the Lilangeni's appreciation in the quarter, bouts of volatility to the downside largely attributed to ESKOM's power cuts and lower projected growth for South Africa visibly weakened the Rand. The second and third quarter were marked by strong depreciation in the Rand, largely coming from additional tariffs imposed by the United States on imports from China as well as low risk appetite for emerging markets assets following growing concerns about global growth. All of these factors coupled with a worsening fiscal policy environment in South Africa, delayed growth-enhancing reforms and the prolonged energy crisis worked against the performance of the Rand. The downward review of South Africa's economic growth forecast for 2019 by the South African Reserve Bank mainly linked to the poor performance of state-owned enterprises and weaker business confidence added more downside pressure to the Rand/Lilangeni performance in the fourth quarter of 2019.

By the end of March 2020, the local unit had breached the E17-mark against the US Dollar following an increase in capital outflow from emerging market economies perpetuated by a virtually sustained low growth environment which prompted a large sell-off of emerging market assets.

The fast spreading coronavirus which had been declared a global pandemic as well as Moody's decision to downgrade South Africa's credit rating to junk status with a negative outlook, further precipitated the losses. The Lilangeni thus closed April 2020 at E18.13 against the US Dollar, E22.59 to the Pound Sterling and at E19.70 against the Euro.

### Figure 22: Average Exchange Rates; March 2020 to March 2020




**Source:** *Central Bank of Eswatini*

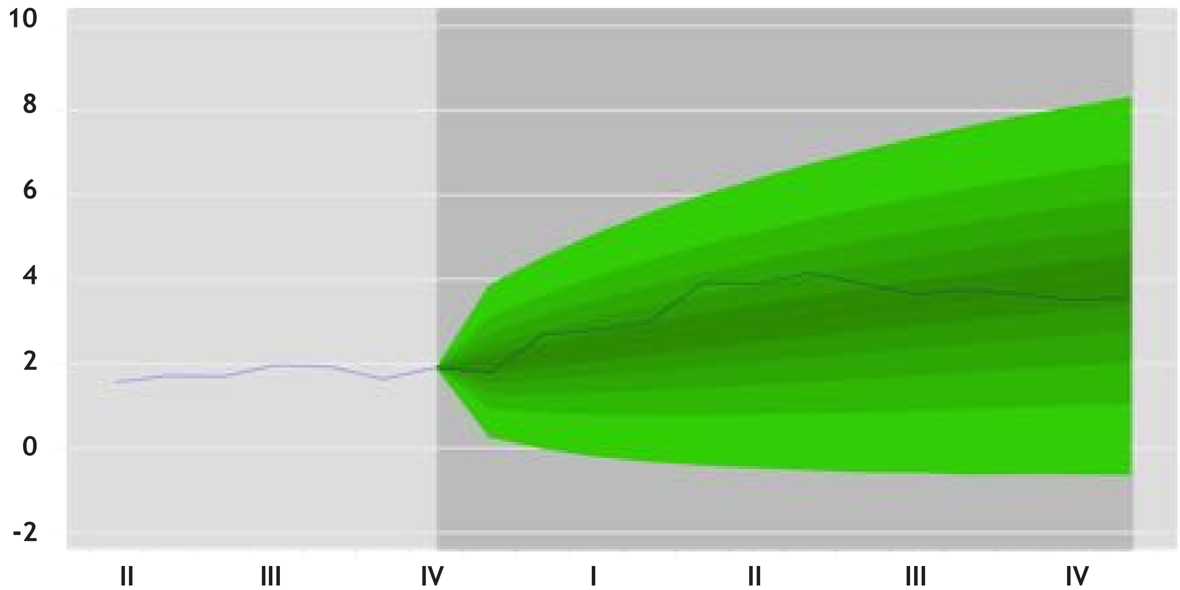
## 4.12 Inflation Outlook and Monetary Policy Stance

**(a) Inflation Outlook**

Eswatini's inflation has lately been under pressure from the effects of the COVID-19 outbreak resulting in changes in the patterns of demand and supply of goods and services. The outlook for both domestic and external factors has exerted some upward and downward pressures on the inflation forecast with upward pressures dominating in the short term. Consequently, the short-term has been revised upwards while the medium term was left unchanged. Overall inflation is expected to grow slightly faster in 2020 than previously forecasted. On the upward pressures, the country's inflation takes significant pressure from the supply chain disruptions due to the COVID-19, utilities tariff hike expected in June, the projected increase in food prices, increase in house rentals and the weakening of the exchange rate, although exhibiting a weak pass-through. However, downward pressures in the short run will emanate from reductions in domestic fuel prices effected in April 2020 and another one in May 2020 in line with low Brent crude oil prices. As a result, the second quarter forecast is revised up from 3.56 per cent forecasted in April 2020 to 3.99 per cent. The third quarter was revised up to 3.76 per cent (from 3.35) and the fourth quarter to 3.57 per cent (from 3.15). Generally, inflation is forecasted to slow down in the second half of 2020 in line with expected reduced demand due to the second round effect of the COVID-19 as household income reduces.

Therefore, the annual forecast for 2020 was revised upwards to 3.54 per cent, from 3.22 forecasted in April 2020. Changes in administered prices remain major determinants of the medium term inflation trend. Also risks to the outlook are Brent oil prices, the weakening Rand against major currencies as influenced by weak fundamentals in South Africa and the effects of the coronavirus which are expected to influence inflation outlook in the medium term. In the medium term, the forecasts show that inflation will average 3.93 per cent in 2021 and 3.59 per cent in 2020 unchanged from the April 2020 forecasts.

**Figure 23: Inflation Projections for 2020 (Fan-Chart)**




**Source:** *Central Bank of Eswatini*

**(b) Monetary Policy stance**

The Bank will remain prudent and vigilant in its monetary policy stance. It will continue to anchor inflation by protecting the Lilangeni's parity with the South African Rand. The Bank will endeavour to maintain appropriate levels of international reserves and continue to adjust its discount rate and other monetary policy instruments in line with its mission of fostering price and financial stability. Further, monetary policy will be anchored to foster economic development in Eswatini.

In the short to medium-term, monetary policy is envisaged to remain accommodative, to counter the negative effects of the COVID-19 on the economy, before embarking on a mild tightening stance to curb expected inflationary pressures. The inflationary pressures may arise domestically from increases in administered prices of some utilities and externally from global supply shocks as a result of the COVID-19 pandemic as well as the weakening Rand/Lilangeni exchange rate. The Bank will thus monitor such developments and respond appropriately in order to maintain price stability supportive to economic growth.

# 5.0 REGULATORY POLICIES FOSTERING FINANCIAL STABILITY

## 5.1 The Financial Sector Development Implementation Plan (FSDIP)

During 2019, the implementation of the recommended policy actions in the Financial Sector Development Implementation Plan (FSDIP) continued. The Central Bank in its capacity as the Secretariat continued to coordinate the implementation of FSDIP activities over the year. All the structures of FSDIP were actively involved in the implementation, with the FSDIP Working Groups implementing the policy actions, whilst the FSDIP Technical Committee provided technical guidance to the Working Groups and the FSDIP Council made strategic decisions and guided FSDIP implementation. Key deliverables under FSDIP over the year include the following:

- FSDIP Monitoring and Evaluation (M&E) framework;
- FSDIP assessment report;
- Credit reporting system scoping report;
- Strategy for the development of a comprehensive credit reporting system;
- Diagnostic report for a movable assets credit registry in Eswatini and a strategy for the development of a movable asset registry;
- Market Conduct Diagnostic Review Report on Pricing transparency and disclosure and fairness of fees and charges for savings and transaction accounts; and
- Stakeholder review of the National Financial Inclusion Strategy.

During the year under review, the IMF, World Bank and the Financial Sector Strengthening Initiative continued to support FSDIP implementation. This allowed the country to gain access to international best practice in financial sector development. The M&E framework generated indicators that will be used to assess FSDIP going forward. It is worth mentioning that FSDIP is a three-year strategy and considering that it was started in April 2017, and will end in April 2020. The FSDIP Council is yet to provide direction on how outstanding work will be carried out to see the strategy fully implemented.

## 5.2 Bank Supervision

The Bank's supervisory objectives are to protect consumers by seeking to ensure that the regulated banks act in the best interest of consumers, are financially sound and are safely managed with sufficient financial resources and are liquid enough to be able to honour its financial obligation as they fall due. To fulfil this mandate, the Bank conduct onsite and offsite surveillance exercise, hold prudential meetings with the supervised entities, receive and produce weekly, monthly and quarterly reports which presents to the bank deficiencies and risks which threatens their soundness.

### 5.2.1 Banking Sector Performance

The banking sector exhibited resilience over the period under review, with adequate capitalization, liquid and compliant with Basel II Pillar 1 requirements. The banking sector total capital was reported at E3.2 billion. The industry capital adequacy ratio (CAR) of Eswatini banks was well above the minimum statutory requirement of 8 percent and settled at 19.06 per cent. Common Equity Tier 1 (CET 1) was also satisfactory and recorded at 16.80 per cent much above the stipulated requirement of 4.5 per cent. The reported ratios give a positive outlook as banks will be expected to comply with the requirements of Basel II/III capital requirements.

As at the end of the quarter under review, the industry total assets grew by 4.5 per cent from E20.3 billion in the previous quarter to E21.2 billion in December 2019.

The industry deposits sat at E16.3 billion against E14.9 billion reported in September 2019, translating to a growth of 9 per cent.

### 5.2.2 Analysis & Distribution of Non-Performing Loans

The industry NPLs ratio slightly worsened to 9.3 per cent, from 9.0 per cent reported in September 2019. The level of non-performing loans in the industry in tandem with the slow economic growth will retard lending growth and pose challenges to borrowers in meeting their debt repayments. This demonstrates a negative outlook as banks will be required to hold a high level of provisions, which will automatically have a negative impact in the overall profitability of the banks.

### 5.2.3 Credit Concentration

Total gross loans & advances grew by 3.8 per cent to settle at E12.4 billion from E12.3 billion reported in September 2019. Industry top-twenty borrowers accounted for 33.8 per cent of gross loans and advances. This is considered a moderate concentration risk. Eswatini Sugar Industry was identified as a systemic borrower having had loan facilities from all the banking institutions in the country.

### 5.2.4 Develops During the Year Under Review

**(a) Basel II Implementation**

The implementation of Basel II is an ongoing project. Following the implementation of Pillar 1 on the 1st April 2018, there has been significant headway in the implementation process for both Pillar 2 and 3 frameworks too. Discussions at the Steering Committee level were done and presentations to the Executive Committee were made, from which approval was granted to finalize the following frameworks/guidelines;

i. Internal Capital Adequacy Assessment (ICAAP) guideline
ii. Supervisory Review and Evaluation framework
iii. Market Disclosure Requirements guideline.

Once finalized, these documents will be sent to the industry in preparation for operationalization following the effective go-live date of 1st January 2020.

**(b) Regulatory reforms**

The Bank has finalized the review of Legal Notice No.62 of 2016 which in the main amended only the component of cash deposit fees; an amendment notice has been published in the Government gazette and came into force on the date of publication thereto.

**(c) Review of CBE Inspection Circular No.8**

The Bank is in the process of reviewing its Inspection Circular No.8 “Non-accrual, classification and reserve requirements for loans and assets”.

### 5.2.5 Bank Supervision - Policy Interventions on COVID-19

i. The current capital requirements for banks under the Basel II framework does not prescribe minimum capital conservation and countercyclical buffers. However, the banks are holding excess capital against the minimum capital requirements (CAR) of 8 per cent. Therefore, banks are encouraged to utilize these buffers to lend during COVID-19.

ii. Banks are encouraged to work with COVID-19 affected customers and consider reasonable restructuring arrangements for struggling loans as opposed to foreclosing on them. The banks are encouraged to grant payments holidays and waive fees and penalties to affected customers during the COVID-19 pandemic.

iii. The Central Bank has reduced the minimum liquidity requirements by 500 basis points for all banks with effect from 23 March 2020 until further notice.

iv. Banks are required to submit liquidity reporting through the BSA system at every close of business until further notice.

v. Banks are further required to submit a daily report on deposits at every close of business until further notice. The Central Bank will engage with each bank on how this report should be submitted.

vi. Banks are required to conduct stress testing for key categories of risks in their balance sheet and submit same to Central Bank 14 days preceding each calendar quarter commencing April 2020.

vii. The Central Bank, for purposes of COVID-19 affected customers, hereby permits banks to suspend provisioning as required by Inspection Circular No.8 for a period not exceeding six months.

viii. The Central Bank further believes that in the context of IFRS 9 and COVID-19, banks are permitted to adjust their approaches to determining expected credit losses (ECLs) in different circumstances. As such granting payment holidays to COVID-19 affected borrowers or particularly affected classes of financial instruments should not automatically result in all those instruments being considered to have suffered significant increase in credit risk (SICR).

ix. Banks are hereby granted moratorium not exceeding six months to maintain same risk weighting category for COVID-19 affected loans for purposes of risk weighting assets under Pillar 1.

x. The effect of COVID-19 is likely to stress the banking sector. Therefore, banks are encouraged to restrict distribution of ordinary dividends during these precarious times. All payments of dividends shall require prior approval of the Central Bank.

xi. Banks are encouraged to promote the use of digital delivery channels and consider waiving some of the fees and charges related to electronic transactions.

xii. In terms of the foregoing, banks are required to adopt the new limits listed in the table below.

**Table 3: New Transaction Limits**

| Transaction | Current Limit | New Limit |
|---|---|---|
| 1. Bank-led wallet size balance | E4,999 with monthly turn over of E25,000 | E15,000 with monthly turn over of E25,000 |
| 2. Bank-led wallet send | E4,999 per day | E15,000 per day |
| 3. Bank-led wallet withdrawal | E4,000 per day | E15,000 per day |
| 4. Bank-led wallet spend | E4,999 daily | E15,000 daily |

**Source:** *Central Bank of Eswatini*

## 5.3 National Payments Systems

The National Payments and Settlement System continued to form part of the backbone in supporting economic activity and financial stability in the Kingdom of Eswatini. The Central Bank continues to promote and regulate payment and settlement systems to support financial stability in the Eswatini financial. The main aim is to ensure that payment systems are secure, efficient, reliable and cost-effective in meeting the needs of the Eswatini economy.

### 5.3.1 NPS Governance and Reform

In response to the digitisation of payments services and the offering of more diverse, efficient and innovative financial services, the Bank continues to coordinate reforms in the payments system infrastructure and legal framework. This is aimed at building and facilitating an enabling payments environment for all players, to mitigate operational risk as well as to manage new dimensions of risk posed by digitisation and innovation. The review of the National Clearing and Settlement Systems Act and the National Payments System Strategy are ongoing projects in the past financial year. In view of disruptions associated with the Corona Virus, these reviews should be finalised by end of June 2020.

### 5.3.2 National Payments Switch

To modernise payment systems in the country, the Bank is exploring means to achieve full service platform interoperability, local card transaction switching, and faster retail payments switching among other things. The plan is to complete the project by end of 2021.

### 5.3.3 Electronic Money Transfer Services

The Eswatini National Financial Inclusion Strategy for 2017-2022 (strategy) identified the growth in e-money to transact and save as a crucial priority area. The strategy calls for the Bank to ensure the overall alignment of a relevant legal and regulatory framework to provide an enabling environment and level playing field to financial service providers. The Bank supports the strategy through guiding and supporting institutions that provide electronic money transfer services. These financial service providers are required to deliver quality and affordable services to users within the jurisdiction of the Kingdom of Eswatini.

The 2018 FinScope Consumer survey results highlighted the growth in the use of mobile money. The survey results reflect that five (5) out of seven (7) adults have a mobile money account. This further contributed to the decrease in the number of adults who are financially excluded from 27 per cent in 2014 to 13 per cent in 2018.

### 5.4.3 Payments Oversight and Regulation

In view of shifting consumer needs, growing innovation and FinTech developments, the Bank continues to explore innovation in technology to enhance oversight and to cut back on the cost of regulatory compliance to the regulated entities. In this regard, the need for enhanced stakeholder cooperation and collaboration with both financial service providers and other regulatory authorities need not be over-emphasised to grow access, usage and supply of quality spectrum of financial services.

## 5.4 Financial Technology (Fintech) Developments

FinTech activities remain largely dominated by traditional financial institutions and telecommunication firms in Eswatini. The sector is witnessing increased collaboration among players in the sector. Financial institutions are collaborating with mobile network operators (MNOs) to deliver digital financial services. This includes partnerships between credit providers with MNOs to pilot the delivery of loans via mobile phones.

### 5.4.1 Global FinTech Regulatory Developments

Regulators around the world continue to work on better understanding the impacts of financial technology in their markets and the global financial system as a whole. As such they have launched a number of initiatives to drive innovation and promote effective competition in the interest of the consumer, while safeguarding the integrity of the financial system.

Most jurisdictions have introduced or are in the process of introducing new standards and policy measures including the following:

- Open Banking and API Legislations and Standards–to accelerate the development of innovative financial products, and enabling access to a wider range of products and services. Open banking provides a safe way for banks to share customer's data with authorized third party service providers, with explicit consumer consent.

- Stricter Data Protection and Privacy Standards – regulators are reviewing and updating their data privacy and protection standards to safeguard against the risks introduced by FinTech products. This includes stronger consent requirements and the introduction of the right to be forgotten. The definition of personal data is also expanding to include IP addresses, device identifiers, location data and other online activity data that may be used to identify an individual.

- AI and Data Ethics Frameworks – while regulators do not regulate technologies, they are providing principles and frameworks to encourage fair, explainable, inclusive, unbiased and transparent AI, and accountable use of financial data.

- Activity Based Fintech Legislation – regulators are increasingly adopting an activity-based approach to regulating Fintech activities such as digital banking, peer-to-peer lending, robo advisors, crypto assets and payment services. Such regulations aim to strengthen consumer protection through a risk-based framework while enabling innovation.

In addition to standards and policy measures, regulators have introduced policy enabling initiatives including the establishment of dedicated FinTech units and hubs, accelerator programmes, sandboxes and FinTech competitions such as hackathons. Regulators also remain focused on addressing current inefficiency of legacy national payment systems. This includes technical upgrades to payment infrastructure and policy initiative to allow for a more robust, inclusive, efficient and interoperable payment system.

### 5.4.2 CBE FinTech Sandbox

In March 2019, the Bank launched a regulatory sandbox to allow companies to test innovative financial sector products, services and business model in a live environment under appropriate supervision. The first year of the sandbox operation provides an early indication that there is significant appetite to establish and provide innovative financial products and services in Eswatini. The sandbox received five (5) applications, all of which are Eswatini registered start-ups.

None of the start-ups have been admitted to the sandbox at this point. However, we foresee great potential in their innovative products and we have opened room for the start-ups to refine the products and services to meet basic regulatory requirements before testing. The submissions are innovative and cater for critical challenges in Eswatini's financial sector. The Bank will support sandbox applicants towards designing, implementing and supervising tests for applicants admitted for sandbox testing.

### 5.4.3 Central Bank Digital Currencies

The past year, the Bank dedicated some resources to assess the potential suitability of issuing a CBDC in Eswatini. This followed a multifaceted recommendation from a consultative forum that the Bank had convened with various stakeholders in June 2019. The Bank engaged the Center for Financial Regulation and Inclusion (Cenfri) to conduct a country intensive assessment of the potential impact that issuing a CBDC would have on consumers, payment systems and economic policies.

The report concluded that there is substantial evidence that a CBDC has potential to significantly and directly enhance the efficiency of payment systems in Eswatini. The report also established that there is an opportunity for consumers to leverage the benefits of a CBDC for improved mobile money usage to deepen financial inclusion.

Benefits may also be realized through fiscal policy in which the visibility and traceability of CBDC could aid government expenditure and revenue collection. The findings and recommendations of the diagnostic will be imperative in informing the next steps in CBDC research and development as well as future payments initiatives.

### 5.4.4 Eswatini Innovation Hackathon

In August 2019, the Central Bank of Eswatini hosted an Innovation Hackathon in partnership with the Centre for Financial Inclusion (CFI), Eswatini Communications Commission (ESSCOM), Financial Services Regulatory Authority (FSRA) and the University of Eswatini (UNESWA) with support from Finmark Trust. The hackathon aimed to catalyse the design of innovative and data-driven solutions that promote access and use of financial services, especially among the vulnerable and SME populations.

The three-day event attracted 24 teams consisting of 77 participants, who designed and developed prototype solutions to one of five real-life problem statements focused on personal finance, SME reporting, SME finance and regulatory reporting.

The hackathon provided skill development and mentorship opportunities, which the hackathon participant found very useful, rating it 4.24 out of 5 in a survey conducted at the end of the event. During the hackathon, participants engaged with mentors and sector experts who provided support as they designed their solutions, and helped them develop digital skills and expertise. Upskilling of local talent in the finance space continues to be crucial, to ensure the workforce is future ready as finance is increasingly becoming a tech enabled and integrated industry.

Participants also found value in the networking opportunities during the hackathon. The event fostered partnership and collaboration which we expect will continue to benefit the participants as they develop FinTech products in the future. Collaboration is one of the main drivers of FinTech disruption and development of innovative products across the globe. Through the 2018 FinTech Challenge and the Eswatini Innovative Hackathon, the bank is playing an important role in creating a culture of collaboration which is expected.

### 5.4.5 Eswatini FinTech Working Group (EFWG)

The Bank together with FSRA, ESSCOM, CFI and UNESWA have formed the Eswatini FinTech Working Group (EFWG) to promote and coordinate greater engagement between regulators, innovators, financial service providers and policy makers about financial innovation. The working group seeks a collaborative approach to understanding FinTech developments and the risks they pose to the financial system, and to develop the necessary policy to drive innovation while safeguarding the integrity of the financial system. This will help the policymakers develop a common approach to FinTech whilst gaining an understanding of risks, consumer protection concerns, regulatory challenges, and the appropriate regulatory and policy response.

FinTech covers digital financial services including mobile money, remittances, lending, payments and digital KYC processes. This means FinTech activities may fall under multiple regulatory purviews across regulatory bodies. This makes it important for regulators to collaborate on the authorization and supervision of FinTech.

### 5.4.6 International Networks

The Bank has sought membership in the MENA (Middle East and North Africa) FinTech Association (MFTA). MFTA plays a key role in driving positive change in the financial services industry through creating an environment that encourages and enables real collaboration between stakeholders. MFTA also seeks to promote key industry initiatives through creating cross border bridges with international communities for the exchange of local and global knowledge expertise. The Bank aims to be part of MFTA's efforts to harness the benefits brought by the association for local innovators and start-ups and the broader economy.

### 5.4.7 Strategy

The Bank will be prioritizing policy reform to create a conducive environment for FinTech development. The Bank looks forward to concluding several legislative instruments intended to enhance consumer and financial sector safeguards as well as encourage competition within the sector. These regulatory instruments will encourage firms to adhere to international standards for both existing and future innovative products, services and business model.

## 5.5 Exchange Controls

The Bank continued to strengthen efforts to ensure soundness and integrity of the financial sector by encouraging compliance to Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards. The Bank has completed a risked based supervisory framework that consists of tools for both offsite and onsite supervision. As a result of the reviewed supervisory framework financial institutions have submitted their first annual returns which informed a risk based supervisory plan for the financial year 2019/2020. The Bank has developed a risk assessment tool that is used to evaluate the adequacy and effectiveness of controls employed by financial institutions enabling the Bank to apply applicable regulatory response to each institution. The Bank has also developed guidance notes for the banking sector to assist institutions with compliance to AML/CFT requirements.
Pursuant to the completion of the AML/CFT national risk assessment, the Bank has developed a remedial plan to address all the Money Laundering/Terrorism Financing (ML/TF) risks identified by the study. The Bank will be visible on site conducting on site compliance meetings and supervisory workshops in an effort to assist financial institutions to comply.

The Eastern and Southern African Anti-Money Laundering Group began the country`s AML/CFT mutual evaluation assessment and this is still ongoing. The Bank like other stakeholders will be evaluated on the effectiveness of its AML/CFT programmes as a regulator for the banking, Money or Value Transfer Service(s) (MVTS) and remittance sectors.

The Bank is in the process of migrating from stringent rule based principle to a risk based approach when regulating Authorized Dealers. This will see the Bank adopting "financial surveillance function" and thus relinquishing a lot of its transaction approval prerequisites and transferring this responsibility to the banks (Authorized Dealers). Applications that are of national importance will still have to be submitted to the Central Bank for consideration and possible approval. The project is implemented progressively.

Under a risk based approach, it is anticipated that applications submitted to the Bank for consideration will diminish over time as the Authorized Dealers take on more responsibility in servicing their customers.

The risk based approach will introduce a proactive system of monitoring inflow and outflow of funds to ensure effective capital management in the country. The ultimate will be deterring and curbing illicit financial flows whilst also promoting foreign direct investment. As part of the migration will be a system upgrade to BOP version 3 which will enhance compliance with international IMF standards and BPM6 codes' resulting in more accurate data reporting for effective data analysis and policy formulation.

A user friendly booklet called Simple Guidance to Exchange Control booklet will be introduced to assist individuals and business entities to understand the exchange control practices and procedures under the new regime.

## 5.6 Operations

### 5.6.1 Issuing and Redeeming of Currency

During the period ended 31st March 2020 notes issued amounted to E6 billion showing a slight increase from the E5.9 billion issued in the same period the previous year, whilst coins issued over the period to March 2020 amounted to E26 million, indicating an increase from prior year's E25.2 million. Currency in circulation decreased slightly from E1.073 billion in March 2019 to E 1.072 billion by the end of March 2020.

### 5.6.2 New Notes

The Bank will be releasing into circulation a new E50 banknote during the course of the coming financial year. This note has incorporated the country's name change and as a consequence the new name of the Central Bank. The note also has an upgraded version of His Majesty's portrait which is similar to the one on the current E100 and E200 notes.

There are no other changes on the note as the substrate remains that of hybrid and security features remain the same. The size, colour and machine readable features also remain the same. In a bid to create the necessary public awareness about the new note, the Central Bank shall run media adverts and distribute posters to inter-alia, banks, businesses and retail outlets.

### 5.6.3 Coin Management Efficiencies

In line with the Bank's strategy, a project is being planned for roll out during the course of the financial year 2020/21 which is aimed at improving coin-recirculation resulting in efficiencies in the supply of coins to the economy. The Bank intends to deploy coin vending machines on targeted sites around the country to enable members of the public to deposit coins much easier and at their convenience.

### 5.6.4 Old coin series

Since the finalisation of the destruction of the old coin series in November 2017, the general public, as per Legal Notice No.147 of 2016, still has access to exchange the old series at face value for the new one up until September 2021.There has not been any need for periodical destructions of these old coins since the volumes are still minimal.

### 5.6.5 Currency Museum

In October 2019, the Bank commenced a project of constructing a Currency Museum at the Central Bank of Eswatini premises, in Mbabane, 1st Floor Umntsholi Building. The objective of this project is to conserve and exhibit the history of the country's currency from inception to date. The Currency Museum will be accessible to members of the public for educational, research and leisure purposes. The Currency Museum will be launched in the first quarter of the coming financial year.

### 5.6.6 Dye Stained Notes

The Bank wishes to remind the public not to accept any stained banknotes as these may be the results of crime, instead efforts should be made to report such to the nearest police station. The Bank or any other financial institution may not exchange or give value for dye stained banknotes in circulation that land in their hands, as there is a presumption that such notes are proceeds of crime.

### 5.6.7 Coronavirus and Cash

The novel coronavirus (COVID-19) continues to spread globally, resulting in concerns on whether the COVID-19 virus can be transmitted through banknotes and coins. It is true that cash changes hands so many times a day. Before notes or coins reach an individual, they will have passed through many hands and contamination may happen at every stage. Even if the Central Bank or financial institution would disinfect the notes and coins, it would be impossible to avoid re-contamination at all the stages where the cash exchanges hands before reaching final destination.

The best approach is for all of us to take the prevention of the spread of COVID-19 as our responsibility. As an individual, you must avoid thinking that someone has to do something to protect you. Contamination occurs because our hands have been exposed. The first person to handle the newest note is the one that contaminates it if his/her hands are not clean. The people who need to disinfect the notes are "us" the users. We all need to wash our hands after handling notes and avoid touching them and then touching our nose and mouths before washing our hands. The worst we can do is holding the notes with our lips. That is bad even if there was no COVID-19. While the entire world is looking for solutions, let us stick to the above basic yet effective measures.

## 5.7 Financial Sector Stability

The safety, soundness and stability of the financial system remains pivotal to the growth of the economy. It is in this regard that the Bank continues its efforts to monitor developments, performance and conditions of financial institutions. The financial sector remained steady as a result of continuous supervisory strategies applied by regulatory authorities and the emergent confidence in system.

The Bank has finalized the Financial Stability Bill and work will be initiated to develop a macro-prudential policy framework and other policy directives destined to ensure a stable financial system. The Financial Stability Bill spells out financial stability as a key objective of the CBE, provides mandate over macro-prudential surveillance, and creates mechanism for crisis preparedness and resolution. The work on crisis management began with a crisis simulation exercise by Toronto Centre and will see improvement crisis preparedness and resolution within the financial sector. Policy frameworks will be developed to enhance mechanisms within which the Central Bank and relevant stakeholders will manage problems in financial institutions including early intervention mechanisms to reduce potential impact on failure.

In order to strengthen confidence in the financial system, steps have been taken to provide for effective stakeholder engagement and collaboration mechanisms with all relevant parties. The Financial Stability Bill makes provisions for multi-disciplinary committees at all levels. The Ministry of Finance will establish a National Financial Stability Panel for macro-prudential surveillance and crisis management. At the same time the Bank will establish a Financial Stability Forum for macro-prudential reporting which will require collaboration between the Central Bank, Financial Services Regulatory Authority, Ministry of Finance, Central Statistics Office and Attorney General's Office.

### 5.7.1 Financial Stability Report

The Bank released the third issue of the Financial Stability Report in November 2019. The report revealed that the financial system of Eswatini remained stable, despite emerging risks from domestic and international developments. On the domestic front, risks largely emanated from the fiscal sector, coupled with weak economic growth. Challenges experienced on the domestic front put a strain on the household sector. The outcome was an increase in household indebtedness, amidst rising non-performing loans, which is a cause for concern as it accelerated financial stability risks.

The banking sector remains stable, liquid and adequately capitalized. There was muted growth in banking sector aggregate assets during the year to September 2019, growing by 0.1 per cent to reach E20.3 billion. On the liability side, deposits experienced a 4.6 per cent decrease to settle at E14.9 billion while total shareholders' funds grew by 5.5 per cent from E2.9 billion in September 2018 to E3.1 billion at the end of September 2019.

The Growth in Non-Bank Financial Institutions (NBFIs) assets slowed to 5.0 per cent in 2018 from 11.0 per cent previously. The slower growth was mainly driven by the impact of volatility and poor performance in financial markets during the year, which resulted in a fall in capital markets assets (CIS and ESX). The main risk faced by pension and retirement funds sector was concentration risk. The two main pension fund institutions represented 81.6 per cent of the assets of the industry and 64.8 per cent of GDP. Any failure of the two institutions would adversely impact the entire economy as the pension fund sector is interconnected with the financial system and real economy through high investments, issuance of loans to corporates as well as debt and equity. Additionally, the pension fund sector could potentially cause liquidity limitations in the financial system as it makes up 49.8 per cent of the total assets in the financial system.

### 5.7.2 Financial Inclusion

Financial Inclusion continues to be a globally important development priority as articulated by the Alliance for Financial Inclusion (AFI), World Bank and other multilateral international organizations. Eswatini FinScope Consumer Survey is a representative demand-side study of the usage of and access to financial services to support initiatives of expanding access and usage of financial services for individuals and micro- and small- businesses owners. The Eswatini FinScope Consumer Survey is used to better understand money matters, with an emphasis on the market needs and attitudes to both informal and formal financial offerings and usage. The FinScope survey further sheds light on consumers and behavior by exploring individuals' interactions with the financial sector as a whole.

The 2018 FinScope Consumer Survey for Eswatini reflected an improvement in access to financial products and services (both formal and informal) from 73 per cent in 2014 to 87 per cent in 2018. The remaining 13 per cent of excluded adults were typically the vulnerable groups such as the poor and residents of remote rural areas mainly in the Lubombo and Shiselweni regions in terms of usage of financial products and services.

In the case of the banked adult population, findings were that bank accounts are used by 66 per cent of the adult population residing mainly in the urban areas. This usage of bank accounts was being driven mainly by digital payments. Digital platforms are used by 92 per cent of bank clients when making payments. The Central Bank continues to ensure that it creates a conducive environment for banks to be innovative with their products and services. This has resulted in more and more banks launching digital products that enable banking services to be accessible to a wider population, hence achieving greater financial inclusion.

Access to credit is also a key priority area in terms of financial inclusion as credit that enables productive capacity or improves the quality of life. In terms of credit access and usage, use of formal credit increased to 12 per cent in 2018 from 10 per cent in 2014. On the other hand, 11 per cent of the adult population were accessing credit informally in 2018, down from 16 per cent in 2014. The findings point out that access to credit is still low and there has been little to no improvement between 2014 and 2018. This leaves much room for improvement from financial institutions to create a more enabling environment for consumers to access credit with greater ease. Policy interventions should align with achieving this objective as well.

As a “savings” culture is continually being promoted in Eswatini, it was comforting to observe that about 63 per cent of adults save, including all forms of savings. Saving through informal mechanisms is gradually diminishing and people are saving to meet monthly expenses, for emergencies and to meet family and business goals. Saving through formal institutions was being done by 55 per cent of the adult population in 2018, an improvement from 40 per cent in 2014.

Uptake in access and usage of products and services offered by the Non-banking institutions is much slower than by the banking institutions. About 28 per cent of adults are making use of insurance. Formal insurance is only used by 25 per cent of the adult population, while 5 per cent use informal insurance. The main driver of insurance was funeral policies.

The CBE will continue to work with all stakeholders in ensuring an inclusive financial sector servicing the population with affordable and quality financial services and products. This will be done through creating an enabling environment for easy access and usage of financial services and products by enlightened consumers. Also key is the data collection, disaggregation and evidence based policy decisions.

## 6.0 CONCLUSION

Annual inflation was low and stable in 2019 with an average of 2.6 per cent, down 4.8 per cent in 2018, mainly benefiting from a freeze in administered prices. Inflation is forecasted to remain stable with an average of 3.5 per cent in 2020 and before rising up to 3.9 per cent in 2021. The Bank reduced the discount rate by a cumulative 275 bps over the reporting period.

Real GDP is estimated to have expanded by 1.3 per cent in 2019 from 2.4 per cent in 2018. The slowdown in economic activity is mainly attributed to a poor performance in the primary and tertiary sectors.

The short-medium term growth outlook is expected to remain challenging. Emerging debt sustainability concerns are projected to limit growth prospects in the medium term. Growth prospects have further been hampered by the global outbreak of the COVID-19 pandemic which has resulted in a global meltdown affecting both supply and demand of goods and services.

The Bank is employing different measures to ensure that the reserves are maintained above the acceptable international benchmark of 3 months of import cover.

The banking sector remains sound, sustainable and meet all statutory requirements. However, higher levels of NPLs which are also likely to increase as a result of the economic slowdown remain a concern to the Bank.

The Bank will continue to monitor global, regional and domestic developments, and use all the instruments at its disposal, in pursuit of its price and financial stability objective, in order to ensure an environment conducive for sustainable economic growth.

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## NOTES:

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