GOVERNOR'S ANNUAL MONETARY POLICY STATEMENT ADDRESS

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Programme Director

Honourable Minister of Finance

Members of both houses of Parliament present in this forum

Board of Directors of the Central Bank

Members of the Monetary Policy Consultative Committee

CEOs of Commercial Banks & Non-Bank Financial Institutions

CEOs of Private Sector and Public Enterprises

Representatives of International Organisations

Representatives of Non-Governmental Organisations

Representatives of Academic Institutions

Senior Government Officials

Central Bank Management & Staff

Media Representatives

Distinguished Guests

Ladies and Gentlemen,

Introduction

1. It is an honour for me to welcome you to this year's Governor's Annual Monetary Policy Address, whose theme is "*Ensuring Price and Financial Stability to Support Economic Growth in times of COVID-19*".

2. The presentation today is being held under an environment where the prevalence of the coronavirus (COVID-19) pandemic plagues the global community, forcing us to conduct business differently. Developments in information and communication technology have made it possible for me to address you through this forum. My appreciation also goes to you Ladies and Gentleman for making time to be part of this address regardless of your busy schedule.

3. Distinguished ladies and gentlemen, first I would like to thank the Bank's stakeholders who continuously support the Bank's activities and hence assist the Bank in achieving its monetary policy objective.

4. It is my pleasure to announce that the Bank has not deviated from its mandate, which is price and financial stability, despite prevailing economic conditions, which continuously pose as threats to the objective of the Central Bank.

5. My presentation this morning provides a review of key international, regional, and domestic economic developments. I will then cover recent monetary policy decisions and pronounce anticipated policy direction in the coming year.

Distinguished ladies and gentlemen, let me start by highlighting developments in the Global Economy.

6. According to the IMF's April 2020 World Economic Outlook update, global growth moderated to an estimated 2.9 per cent in 2019 from 3.6 per cent in 2018. It is expected to contract by 3 per cent in 2020, a contraction which is worse than the global financial crisis of 2008/2009. The contraction in 2020 is largely due to the COVID-19 developments which have negatively impacted global economic activity. The IMF notes that these projections are under the assumption that COVID-19 will be contained in the second half of 2020 and restriction would unwound; however, the risks of a much severe outcome are substantial. The IMF estimates that global growth will recover in 2021 rising by 5.8 per cent.

7. Advanced economies grew by 1.7 per cent in 2019 from 2.2 per cent in 2018. They are projected to contract by 6.1 per cent in 2020 before rebounding to 4.5 per cent in 2021. Emerging Markets and Developing Economies (EMDEs) expanded by 3.7 per cent in 2019 from 4.5 per cent in 2018. They are projected to contract by 1 per cent in 2020 before rebounding to 6.6 per cent in 2021.

8. Ladies and Gentlemen consumer price inflation in advanced economies in 2019 moderated to 1.4 per cent from 2.0 per cent in 2018. It is expected to average 0.5 per cent in 2020 before rising to 1.5 per cent in 2021.

9. In EMDEs, inflation averaged 5.0 per cent in 2019 from 4.8 per cent in 2018. It is expected that inflation will average 4.6 per cent in 2020 and marginally moderate to 4.5 per cent in 2021.

10. Monetary policy in advanced economies generally remained steady in 2019 with the US Federal Reserve on an easing path. However, the year 2020 saw monetary policy in advanced economies easing drastically in some of the major economies in an effort to cushion their economies against the severe negative impact of COVID-19.

11. The US FED cut the interest rates by a cumulative 225 basis points for the financial year 2019/20. The FED cut interest rates by 25 basis points in each of the its meetings in July, September and October 2019, reducing the Fed funds rate from 2.5 per cent to 1.75 per cent. In response to the impact of COVID-19, the Fed cut interest rates by a cumulative 150 basis points in March over two meetings to bring the target range to 0-0.25 per cent.

12. The Bank of England maintained the bank rate at 0.75 per cent throughout 2019 and effected two cuts in 2020 to a record low of 0.1 per cent. The European Central Bank (ECB) and the Bank of Japan maintained their interest rates at 0 per cent and -0.1 per cent, respectively, throughout the period under review.

Ladies and Gentlemen let me now turn to economic developments in the neighbouring South Africa, which is Eswatini's major trading partner.

13. The South African economy continued to perform below expectations in 2019, growing by 0.2 per cent, following a 0.8 per cent expansion in 2018. This growth was the lowest since a 1.5 per cent contraction in 2009.

14. On a quarterly basis, the South African GDP shrank by an annualized 1.4 per cent (quarter on quarter) in the fourth quarter of 2019, following an upwardly revised 0.8 per cent contraction in the previous quarter.

15. Like in all other economies, the COVID-19 developments have negatively impacted South Africa's growth outlook. The South African Reserve Bank expects the economy to contract by 7 per cent in 2020 before rising to 3.8 per cent and 2.9 per cent in 2021 and 2022 respectively.

16. On the other hand, the IMF expects the South African economy to contract by 5.8 per cent in 2020 before rebounding to 4 per cent in 2021. Severe external demand shocks and the lock down measures undertaken to curb the spread of COVID-19 were cited as some of the main reasons for the gloomy outlook in South Africa. In January 2020, the IMF indicated that structural constraints and deteriorating public finances are holding back business confidence and private investment thus weighing negatively on growth.

17. Ladies and Gentlemen the South African headline consumer price inflation averaged 4.1 per cent in 2019, down from 4.6 per cent in 2018. The SARB forecast inflation to average 3.4 per cent in 2020, and 4.4 per cent for 2021 and 2022.

18. 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 and kept it steady for the remainder of the year. Since the beginning of the year 2020, the SARB has cut the repo rate by a cumulative 275 basis points in an effort to support growth in the wake of the COVID-19 pandemic, taking the discount rate from 6.5 per cent in January 2020 to 3.75 per cent in May 2020. These cuts were as follows; 25 basis points in January, 100 basis points in March, 100 basis points in April and 50 basis points in May 2020.

Distinguished Guests let me now shift focus to developments in the domestic economy. I will start by outlining the monetary policy stance of the country during the review period.

19. Monetary policy has been accommodative over the review period, easing by a cumulative 275 basis points since April 2019 where it was 6.75 per cent. The Bank first cut the discount rate by 25 basis points in July 2019 to 6.5 per cent and thereafter left it unchanged for the remainder of the year 2019. In March 2020, the Bank cut the policy rate by 100 basis points before reducing it further by another 100 basis points in an extra ordinary meeting held in April 2020.

20. The Bank further cut the discount rate by 50 basis points in May 2020, in an effort to cushion the economy from the negative effects of the COVID-19. Consequently, the discount rate was reduced to 4.0 per cent and as a norm in the past, commercial banks are expected to follow suit and reduce the prime lending rate.

21. Ladies and gentlemen, in addition to the cut in the discount rate the Bank also reduced the liquidity requirement in March 2020 from 25 per cent to 20 per cent for commercial banks and from 22 per cent to 18 per cent for Development Banks in order to cushion consumers from the pandemic.

Distinguished Guests, these monetary policy actions I have just outlined are expected to filter into the economy, hence I now present their transmission to the wider economy.

22. 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.

23. 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.

24. 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 which expanded by 7.3 per cent from -0.4 per cent in 2018.

25. 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.

26. Due to COVID-19, preliminary projections indicate that GDP will decline by 6.2 per cent in 2020 compared to an initial pre-COVID-19 projection of 2.8 per cent which was published in January 2020. The secondary and tertiary sectors are the main drivers of the significant downward revision.

27. The secondary sector is projected to decline by 9.6 per cent compared to previously 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 export-oriented manufactured products.

28. The tertiary sector is projected to decline by 5.7 per cent in 2020 compared to a growth of 1.3 per cent in earlier projections.

29. On a quarterly basis (year-on-year), GDP contracted by 2.1 per cent 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.

***I now turn to inflation developments in the domestic economy*.**

30. 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.

31. 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 the previous year. This was as a result of government’s directive to freeze all utilities’ tariffs in 2019, which translated into no increases 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.

32. Deflationary pressures also emanated from transport inflation, which grew at a slower rate of 1.1 per cent in 2019 compared to 4.0 per cent in the previous year.

33. However, modest inflationary pressures were observed in the price index for ‘food and non-alcoholic beverages’ which grew by 2.2 per cent in 2019 from zero growth in 2018. Over and above this moderate growth, increases were also observed in the price indices for ‘clothing and footwear’, as well as ‘education’ which grew by an average of 0.8 per cent and 8 per cent in 2019, from -1.3 per cent and 7.4 per cent in 2018, respectively.

34. 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 2019 reflecting that underlying inflationary pressures were on the downside in 2019 in line with the significant moderation in the growth rates for services' prices.

35. In the first months of 2020, inflationary pressures were observed to be coming primarily from a rise in prices for bread and transport.

Ladies and Gentlemen, I will now talk about monetary sector developments in the domestic economy

36. 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 reduction from the 8.0 per cent growth recorded in the previous year. The decline in credit was largely discernible in the business sector while credit to Households increased.

37. 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, particularly in the sugar industry.

38. Year-on-year credit extended to the household sector recovered from a fall of 0.1 per cent recorded in the previous year to register a growth of 9.9 per cent in March 2020. Within the categories of the household sector, the rise was ascribed to an improvement in unsecured loans and housing loans while motor vehicle loans continued to fall. Unsecured loans grew by 15.8 per cent in March 2020, a notable rise from the 5.3 per cent growth recorded the previous year.

39. 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.

40. 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.

41. Consequently, at the end of April 2020, the reserves were sufficient to cover an estimated 3.5 months of imports of goods and services, substantially higher than the 2.5 months recorded at the same time the previous year.

42. The reserves were also boosted by inflows from foreign exchange trades with local banks. Since the exercise began in May 2018, up to March 2020 the Bank has raised an equivalent of E5.19 billion. The central bank has been encouraging banks to sell the foreign currency to the Central Bank which augurs well for the reserves.

43. 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. 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.

Ladies and gentlemen, I will now turn to developments in the fiscal sector.

44. The national budget for the year 2020/21, was presented by the Minister of Finance on 14 February 2019 in the wake of cash flow challenges and persistent arrears' accumulation.

45. Budget estimates for 2020/21 show a fiscal gap of E2.9 billion deficit which translates to 3.6 per cent of GDP. The Government plans to clear arrears and consolidate.

46. 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.

47. 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 at 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.

48. 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.

49. 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.

50. 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.

Distinguished ladies and gentlemen, allow me to walk you through the developments in the country's Balance of Payments

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

52. Preliminary estimates show that the current account registered a surplus of E2.487 billion in 2019 following a surplus of E550.2 million 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.

53. The trade account recorded a surplus amounting to E3.747 billion in 2019, from a surplus of E387.2 million in the previous year. The surplus was largely explained by the country's exports, which grew faster than imports during the period under review.

54. Merchandise export earnings amounted to E28.679 billion in 2019, which marked a notable year-on-year growth of 17.8 per cent from E24.344 billion in 2018.

55. The country's import bill grew by 4.1 per cent year-on-year to E24.931 billion in 2019 from E23.956 billion in 2018.

56. The external value of the Lilangeni generally depreciated in 2019. 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.

57. The significant depreciation in the local unit was largely a regional phenomenon generally driven by large capital outflows from South Africa perpetuated by low economic growth and unstable power supply, which had a negative impact on manufacturing and mining activity.

58. The Lilangeni further weakened in the first quarter of 2020 amid the COVID-19 developments. 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.

59. The COVID-19 developments as well as Moody's decision to downgrade South Africa's credit rating to junk status with a negative outlook, further precipitated the losses of the domestic currency.

Distinguished ladies and gentlemen, allow me to talk about the inflation outlook and monetary policy stance

60. 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.

61. The inflationary pressures may arise domestically from increases in administered prices of some utilities, particularly water and electricity which will be effected in 2020 and in 2021, respectively. Other pressures are expected to emanate externally from a recovery in global oil prices as well as the vulnerable Rand/Lilangeni exchange rate.

62. Latest inflation forecasts by the CBE indicate that inflation is expected to average 3.5 per cent in 2020 from an average of 4.8 per cent in 2018, and to 3.9 in 2021. Notably, the uncertainty around COVID-19 developments makes it difficult to make clear projections.

63. The Bank is committed to maintaining the currency peg to the Rand and will continue to adjust its discount rate and other monetary policy instruments in line with its mission of fostering price and financial stability that is conducive to the economic development in Eswatini.

I will now turn to developments in the regulatory policies fostering financial stability. Let me start with the Financial Sector Development Implementation Plan (FSDIP)

64. During 2019, the implementation of the recommended policy actions in FSDIP continued and key deliverables over the year included 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.

Distinguished ladies and gentlemen, I will now turn to Bank Supervision.

65. On-going surveillance of the domestic banking system is equally important in the Bank's pursuit to foster financial sector stability. It provides financial soundness indicators that serve as early warning signs in the detection of vulnerabilities in the banking sector.

66. The banking sector total capital was reported at E3.2 billion over the review period. The industry capital adequacy ratio (CAR) of Eswatini banks was well above the minimum statutory requirement of 8 per cent and settled at 19.1 per cent. Common Equity Tier 1 (CET 1) was also satisfactory and recorded at 16.8 per cent much above the stipulated requirement of 4.5 per cent.

67. The industries total assets grew by 4.5 per cent from E20.3 billion in the previous quarter to E21.2 billion in December 2019.

68. The industry NPLs ratio slightly worsened to 9.3 per cent in December 2019, from nine 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.

69. The Bank has finalized the review of Legal Notice No.62 of 2016 which 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.

70. In an effort to cushion the economy against the negative impact from COVID-19 developments and also continue ensuring a stable financial system, the Bank undertook the following measures;

- ✓ Encouraged banks to utilize their buffers to lend during COVID-19 period as they are currently holding excess capital against the minimum capital requirements (CAR) of 8 per cent.

- ✓ Encouraged banks to work with COVID-19 affected customers and consider reasonable restructuring arrangements for struggling loans as opposed to foreclosing on them. The Central Bank encourages banks to grant payments holidays and waive fees and penalties to affected customers during the COVID-19 pandemic.

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

- ✓ 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.

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

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

- ✓ 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).

- ✓ Banks have been granted a 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.

- ✓ 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.

- ✓ Banks have been encouraged to promote the use of digital delivery channels and consider waiving some of the fees and charges related to electronic transactions.

- ✓ The Bank has also increased the following limits;

Transaction Type	**Current Limit**	**New Limit**
1. Bank-led wallet size/balance	E4,999 with monthly turnover of E25,000	E15,000 with monthly turnover of E25,000
2. Bank-led wallet send	E4,999 per day	E15,000 per day
3. Bank-led wallet withdrawal	E4,000 daily	E10,000 daily
4. Bank-led wallet spend	E4,999 daily	E15,000 daily

Ladies and Gentlemen, I will now speak on the national payment systems.

71. Eswatini payment & settlement systems continue to be a key component of the financial system. Any disruption to the payment & settlement systems would have adverse consequences for the country's economy.

72. 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.

73. 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.

74. The reviews of the National Clearing and Settlement Systems Act and the National Payments System Strategy are ongoing. Notwithstanding the disruptions associated with the COVID-19, these reviews should be finalised by end of June 2020.

75. 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 the year 2021.

Let me now talk about financial technology (FINTECH) developments

76. Ladies and Gentlemen 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.

77. 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.

78. In June 2019, the Bank had a consultative forum with stakeholders in which a multifaceted recommendation was made on the use of issuing a Central Bank Digital Currency (CBDC) in Eswatini. The Bank therefore duly 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.

79. 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. 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.

80. 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.

81. 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.

82. On another note, 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.

Ladies and gentlemen, I will now move forward to discuss issues on exchange controls.

83. 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.

84. The Bank has completed a risked based supervisory framework that consist 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.

85. 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 use 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.

86. 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.

87. The Eastern and Southern African Anti-Money Laundering Group has begun the country`s AML/CFT mutual evaluation assessment and this is still on going. 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.

88. 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 Central Bank adopting “financial surveillance function” and thus relinquishing a lot of its transaction approval prerequisites and transferring this responsibility to the banks

(Authorized Dealers). However, applications that are of national importance will still have to be submitted to Central Bank for consideration and possible approval.

89. As part of the migration, there 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 macroeconomic analysis and policy formulation.

Ladies and gentlemen, I will now move on to speak on Operational issues at the CBE.

90. 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 the previous 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.

91. The Bank will be releasing into circulation a new E50 banknote during the course of the 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.

92. 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.

93. In October 2019, the Bank commenced a project of constructing a Currency Museum in its premises at the Umntsholi Building. The objective of this project is to conserve and exhibit the history of the country's currency from inception to date. The Museum will be open to the public before March 2021.

94. 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.

Ladies and gentlemen, I will now turn to financial sector stability

95. 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.

96. 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. It provides mandate over macro prudential surveillance, and creates a mechanism for crisis preparedness and resolution.

97. The Minister 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.

98. 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.

99. 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.

100. Ladies and Gentlemen the main risk faced by pensions and retirement funds sector is 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.

CONCLUSION

101. Let me conclude by highlighting that the economy is under severe pressure due to the outbreak of the COVID-19 and its negative consequences on economic growth outlook.

102. The accommodative monetary policy stance recently adopted by the Bank is expected to somewhat cushion the economy against this fallout. However, let me emphasise that monetary policy alone cannot effectively succeed in dealing with the effects of the COVID-19 on the economy but through a collective effort from all stakeholders we will be able to effectively deal with the situation we are faced with as a country.

103. Let me assure you all that the Bank will continue to monitor developments as presented by the COVID-19 on global, regional and domestic economies, 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.

I thank you all ladies and Gentlemen!!!