Governor's Annual Monetary Policy Statement Address -27 May 2022

Programme Director

Honourable Minister for Finance

Members of both Houses of Parliament present in this virtual forum

Board of Directors of the Central Bank of Eswatini

Members of the Monetary Policy Consultative Committee

Executive Leadership of Commercial Banks & Non-Bank Financial Institutions

CEOs of Private and Public Sector 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 my honour to welcome you, yet again, to this year's Annual Monetary Policy Statement delivery, whose theme is "Ensuring Price and Financial Stability to Support Economic Growth".

2. The 2021/2022 period has seen the global economy slowly recovering from the COVID-19 pandemic effects only to be confronted by severe geopolitical tensions in the opening months of 2022 which continue to threaten global growth. The faster normalisation of monetary policy at global level to curb the heightened inflation is expected to further weigh down on global growth prospects.

3. Distinguished ladies and gentlemen, first I would like to thank the Bank's stakeholders who continuously support the Bank's activities and consequently assist in achieving our monetary policy objective of price and financial stability.

4. Prevailing economic developments continue to be challenging in the face of soaring inflation and sluggish growth, whilst regional and global monetary policy is on a fast tightening pace.

5. My address this morning shall outline some of the key international, regional and domestic economic developments that influenced monetary policy decisions over the past year. I will further provide some guidance of the monetary policy path for the 2022/23 financial year.

Programme Director, distinguished ladies and gentlemen, let me start by highlighting developments in the Global Economy.

6. According to the April 2022 IMF's World Economic Outlook (WEO), global growth is projected to slow down from an estimated 6.1 per cent in 2021 to 3.6 per cent in 2022 and 2023, respectively. The downward revision majorly highlights the Russia-Ukraine war's direct impact on the global economy and related spill-over effects. Beyond 2023, global growth is forecasted to decline to 3.3 per cent over the medium term.

7. The IMF forecasts advanced economies to grow by 3.3 per cent in 2022 following an estimated GDP growth of 5.2 per cent in 2021. A further moderation to 2.4 per cent is forecasted for 2023.

8. Emerging Market and Developing Economies (EMDEs) are forecasted to decrease to 3.8 per cent in 2022 from 6.8 per cent in 2021 and will edge up to 4.4 per cent in 2023.

9. The IMF highlights that inflation expectations remained reasonably well anchored in most economies during the pandemic. Besides recent hikes, markets expect the inflation rate to moderate over the medium term as central banks around the world respond. Inflation expectations have so far risen substantially in few EMDEs. Meantime, with already high inflation and rising energy and food prices, elevated inflation expectations could become more widespread and in turn result to further increases in prices.

10. According to the IMF's latest forecast published in the April 2022 World Economic Outlook, elevated global inflation is expected to remain for longer. This is happening amid geopolitical tensions,

the continuing war in the eastern Europe and broadening price pressures. The Russia–Ukraine war is likely to have a protracted impact on commodity prices, affecting oil and gas prices more severely in 2022 and food prices well into 2023.

11. Consumer price inflation in advanced economies was recorded at 3.1 per cent in 2021 from 0.7 per cent in 2020, and is expected to hike to 5.7 per cent in 2022. For 2023, inflation in this bloc is forecasted to rise by 2.5 per cent.

12. In EMDEs, consumer prices rose by 5.9 per cent in 2021 from 5.2 per cent in 2022, and are projected to rise even higher by 8.7 per cent in 2022. In 2023, consumer inflation is expected to edge lower, rising by 6.5 per cent. In most EMDEs, rising food prices also played a significant role in heating up inflation, as problematic weather patterns hit harvests and rising oil and gas prices drove up the cost of fertilizer.

13. Distinguished Guests, in light of rising global inflation monetary policy is now tightening at a faster pace.

14. The US Federal Reserve has increased the target range for its federal funds rate by 75 basis points (bps) since the begin of year 2022 to a range of between 0.75-1 per cent to curb high inflation. The Fed now sees rate hikes at each of the 5 remaining meetings in 2022, with the Fed funds rate reaching 1.9 per cent by the end of the year citing high energy prices and inflation, supply chain disruptions and the Ukraine invasion by Russia among its concerns.

15. The Bank of England increased its bench mark policy rate by a cumulative 90 bps since the beginning of 2021 to-date with only a

25 bps points hike at the end of 2021 and the remainder (65 bps) effected in 2022.

16. On the contrary, the European Central Bank (ECB) has consistently maintained its refinancing rate at 0 per cent for the whole of 2021 and to-date, same as the Bank of Bank of Japan which has maintained its key interest rate at -0.1 per cent over the review period.

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

17. According to Statistics South Africa, the South African economy grew by 4.9 per cent in 2021 following a 6.4 per cent contraction in 2020. The SARB forecasts the South African economy to grow by a slower 1.7 per cent in 2022 on account of a combination of short-term factors, including the flooding in Kwazulu Natal and the continued electricity supply constraints. The economy is forecasted to grow by 1.9 per cent in 2023 and 2024.

18. Ladies and Gentlemen, the South African headline consumer price inflation averaged 4.56 per cent in 2021, up from 3.28 per cent recorded in 2020. The SARB forecasts inflation to average 5.9 per cent in 2022 and 5 per cent in 2023.

19. The South African Reserve Bank's (SARB) Monetary Policy Committee hiked the repo rate over its past four consecutive meetings citing a heightened inflation outlook, mainly due higher food prices, rising oil prices and supply chain disruptions which emanates from the Russia - Ukraine war. Cumulatively, the SARB has hiked the repo rate by 125 bps since the beginning of 2021 with only 25 bps hike in November

2021 to 3.75 per cent and remainder (100 bps) in 2022 to 4.75 per cent.

Programme Director 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.

20. Throughout the year 2021, the Central Bank of Eswatini (CBE) continued to pursue an accommodative monetary policy stance largely in line with subdued inflationary pressures, maintaining the discount rate at 3.5 per cent. This stance supported economic recovery efforts following the negative impact of the COVID-19 pandemic.

21. As inflationary pressures began to emerge, the Bank increased the interest rate by 25 bps to 4 per cent in January 2022 and further up by 50 bps to 4.5 per cent in May 2022, in line with the tightening global monetary conditions.

22. Ladies and gentlemen, over the review period, the Bank left the liquidity requirement uncharged at 20 per cent for commercial banks and 18 per cent for development banks. The reserve requirement was also left unchanged at 5 per cent.

Distinguished Guests, let me now turn to the wider domestic economy.

23. Economic activity, as measured by Gross Domestic Product, is estimated to have grown by 5.9 per cent in 2021 rebounding from a 1.9 per cent contraction in 2020. The stronger-than-expected recovery was mainly driven by activities in the secondary sector.

24. The primary sector is estimated to have grown by 5.0 per cent in 2021 recovering from a decline of 5.1 per cent in the previous year. The main contributors to the growth were ‘forestry activities’ and ‘animal production’.

25. The secondary sector rebounded from a decline of 9.8 per cent in 2020 and recorded a growth of 12.6 per cent in 2021 and accounted for 4.2 per cent in the overall GDP growth for 2021.

26. The tertiary sector is estimated to have grown by 2.2 per cent in 2021 compared to 4.5 per cent in 2020. Developments in the tertiary sector were mixed. Sectors that performed positively included ‘information & communication’, ‘financial services’ and ‘professional services’. The Information, Communication and Technology (ICT) sector continued to benefit from increased usage of digital platforms in conducting business in the wake of the COVIDD-19 pandemic.

27. According to official projections issued in January 2022, GDP is projected to increase by 2.4 per cent in 2022. In the medium-term, real GDP growth is expected to gradually pick up to 2.6 per cent in 2023 and further up to 3.7 per cent in 2024.

28. On a quarterly basis, GDP is estimated to have increased by a slower 2.1 per cent, on a year-on-year and seasonally adjusted basis, in the fourth quarter of 2021 from a revised growth of 3.9 per cent in the third quarter of 2021.

Programme Director, I now turn to inflation developments.

29. Annual headline inflation averaged 3.7 per cent in 2021, slightly lower than the 3.9 per cent recorded in 2020. The moderation in

consumer prices was a result of slower increases observed in the CPI for services. The CPI for services recorded an average of 1.0 per cent in the period under review compared to 4.4 per cent in the previous period. Services that recorded a notable slowdown included: 'education', 'public transportation' and 'hotels' accommodation'. The growth rate in prices for education services declined to an average of 0.5 per cent in 2021 compared to 8.5 per cent in 2020, largely due to a significant slowdown in increases in the tuition fees for secondary and tertiary education. COVID-19 induced disruptions in the education sector limited the scope of tuition increases in the period under review.

30. Transport services inflation averaged 0.1 per cent in 2021 compared to 8.3 per cent in the previous year. This moderation was largely due to base effects as public transport fares, which were hiked by an average of 9.2 per cent in the beginning of 2020 were unchanged in the period under review. On the other hand, prices for 'accommodation services' reduced in the period under review due to weak demand as COVID-19 restrictions weighed negatively on the tourism sector. Moreover, housing rentals also grew at a slower rate of 2.7 per cent in the period under review compared to 5.3 per cent in the previous year.

31. Core inflation which is CPI excluding food, auto-fuel and energy averaged 2.5 per cent in the period under review from 4.1 per cent in the previous period. This reflected that underlying inflationary pressures from the demand side were modest in 2021, in line with the significant moderation in the growth rates for CPI services.

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

32. Though continuing to exhibit positive growth rates in line with the easing of lockdown restrictions, year-on-year private sector credit growth decelerated to 3.3 per cent in March 2022 from a high of 9.3 per cent in March 2021. The slowdown in credit was attributed to fragile economic activity partly exacerbated by the recent civil unrest in 2021.

33. The credit growth was largely discernible in lending to the business sector and to a lesser extent, lending to households. Notably, lending to businesses turned around from -1.8 per cent in March 2021 to a growth of 15.2 per cent in March 2022. The rise in credit to businesses was mainly reflected in real estate, distribution & tourism, transport & communication and manufacturing industries.

34. Year-on-year growth in credit extended to the household sector decelerated to 6.9 per cent in March 2022 from 11.4 per cent in March 2021. Within the categories of the household sector, the slowdown was reflected in other personal (unsecured) loans while housing and motor vehicle loans improved. Other personal loans grew by a lower 10.0 per cent in March 2022, compared to 33.0 per cent in March 2021. Credit for housing purposes increased by 5.7 per cent in March 2022 compared to a lower 2.6 per cent registered the previous year. Growth in credit extended

for motor vehicles recovered to 2.0 per cent in March 2022, from a contraction of 3.3 per cent in March 2021.

35. Private sector credit growth in the medium term is expected to remain positive underpinned by anticipated normalisation in economic activity. However, the pace of credit growth may be undermined by economic uncertainties and cost pressures due to the Russian/Ukraine war as well as threats of new infection waves that may emerge particularly due to lower COVID-19 vaccination rates locally and regionally.

36. Gross official reserves levelled-off from high levels reinforced by relatively higher SACU receipts and foreign exchange proceeds from external loan funding during the 2020/21 fiscal year. Notably, the reserves declined by 5.1 per cent from E9.3 billion in April 2021 to E8.9 billion in April 2022. Consequently, the import cover declined from 4.0 months in April 2021 to reach 3.3 months in April 2022. At this level, the import cover remained above the internationally recommended level of 3 months but was below the CBE and CMA targets of 4 months as well as the SADC target of 6 months.

37. Following the decelerating growth in private sector credit and fall in net foreign assets, broad money supply (M2) declined by 8.6 per cent year-on-year in March 2022, compared to an increase of 24.1 per cent in March 2021. Notably, both components of M2; narrow money supply (M1) and quasi money supply declined.

38. Broad money supply growth in the near-term is likely to pick up, underpinned by improved economic outlook sentiments locally,

regionally and globally. However, M2 growth may be weakened by lower economic activity arising from a likely re-introduction of restrictions due to an anticipated rise in new COVID-19 infection waves.

Programme Director, ladies and gentlemen, I will now turn to developments in the fiscal sector.

39. The 2022/23 budget indicates a E3.8 billion deficit, an equivalent of 4.8 per cent of GDP. This is an improvement from the 2021/22 fiscal year which was budgeted at 6.5 per cent of GDP. This was achieved as a result of higher growth rate of revenues, coupled with expenditure rationalization, as Government continues to implement the Fiscal Adjustment Plan.

40. Total expenditure is budgeted at E23.2 billion in 2022/23 from a E22.7 billion preliminary estimate for 2021/22 showing a marginal increase of 2.2 per cent. Capital expenditure is estimated at E5.4 billion whilst appropriated recurrent expenditure will account for E16.2 billion. Statutory expenditure (excluding redemptions) is estimated at E1.6 billion.

41. Ladies and gentlemen, at the end of April 2022, total public debt stood at E26.9 billion dropping by about 3.9 per cent from E28.0 billion recorded at the end of February 2022. Contributing to the fall was a reduction in total domestic debt when Government repaid the CBE Advance, while total external debt also fell by E600 million or 5.3 per cent, due to settlements. At this level, total public debt was equivalent to 34.5 per cent of GDP at the end of the period.

42. Annually, total debt increased by 7.17 per cent from E25.1 billion to E26.9 billion. Considering critical debt ratios, at this level Eswatini is within the 35 per cent of GDP Policy threshold, and the 60 per cent of GDP SADAC Macroeconomic Convergence threshold, however total debt is increasing nominally. Worrying of note is that the increase in mainly driven by domestic borrowing, which is primarily used for general budget financing, and a small portion goes to investment. This therefore creates pressure in future debt servicing because the current borrowing does not translate to real GDP growth that can generate revenue in the future.

Programme Director, Distinguished ladies and gentlemen, allow me to walk you through the developments in Financial Markets

43. The Central Bank continues to actively participate in the domestic market by purchasing foreign currency acquired through export proceeds from the local banks in an endeavour to build foreign exchange reserves and to provide a buffer against the effects of external shocks.

44. Since inception of this exercise in May 2018, an equivalent of E12.367 billion has been traded up to the end of March 2022. The total volume of trades conducted over the financial year from April 2021 to March 2022 amounted to E3.545 billion, with unmatured forward positions at the end of the period amounting to E6.324 million.

45. The volume of trades was up 33 per cent relative to the previous financial year, where total trades amounted to E2.665 billion in

2020/21. The US dollar is the leading currency accounting for over 85 per cent of total trades, at E10.617 billion of overall purchases since inception, followed by the euro amounting to E1.42 billion (11.5 per cent).

46. The Government of the kingdom of Eswatini's fiscal challenges continued during the 2021/22 fiscal year. To assist government overcome some of her recurrent expenditure, the Bank provided an Advance to government as enshrined in the CBS Order 1974, as amended.

47. The Total Advances granted to Government in different tranches amounted to E1,889 million over the year. These assisted the government to meet her liquidity requirements on major recurrent expenditures.

48. Government's Total domestic debt portfolio increased by E942 million or 6 per cent from E15,798 million in March 2021 to E16,740 million in March 2022. The increase was mainly driven by positive net issuance in Treasury Bonds that increased by E1,218 million or 14 per cent from E8,674 million in March 2021 to E9,892 million in March 2022. The Central Bank Advance to government increased by E189 million or 13 per cent from E1,500 million to E1,689 million. A total of E2,561 million was raised from Treasury bonds issuances in the period under review.

49. Ladies and gentlemen, the Bank is at an advanced stage of introducing the Government of the Kingdom of Eswatini as a sovereign borrower in the South African Markets. A five Billion Rand Issuance Programme will be listed at the Johannesburg

Stock Exchange (JSE) and the target is to conduct the first issuance during the 2022/23 financial year. Developments are also at an advance stage of introducing a Retail Bond Programme aimed at improving financial inclusion whilst at the same time providing necessary funding for small government projects.

50. On another note, the Bank engaged the services of IMF to review the Bank's monetary policy operations and assist in developing capacity for domestic market liquidity monitoring and forecasting. The IMF provided a technical report that the Bank is in the process of reviewing for further implementation. The Bank continues to offer an Overnight Facility, CBE bills and a Term deposit facility to mop up excess liquidity in the market. Participation on both CBE Bills and Term Deposit facilities have been quite minimal as banks prefer to place most of their excess liquidity on the call deposit facility for liquidity management purposes.

51. Efforts are ongoing that are aimed at improving the Bank's monetary policy framework and policy toolkit.

Ladies and gentlemen allow me to turn to developments in the external sector

52. The country's external sector recorded a current account surplus amounting to E1.750 billion in 2021, from a wider E4.375 billion surplus in the year 2020. The 2021 surplus was achieved on account of an E8.074 billion secondary income account inflow largely consisting of SACU receipts and a positive trade balance.

As a per cent of GDP, the surplus in 2021, was equivalent to 2.4 per cent from 6.7 per cent in 2020.

53. In 2021, the trade account posted a E1.891 billion surplus following a E3.912 billion surplus in the previous year. The surplus, in 2021, narrowed largely due to the total value of imports growing at a faster pace compared to the growth in exports. The value of imports increased by a significant 17.1 per cent in 2021 after contracting by 1.9 per cent in the previous year due to a slowdown in economic activity.

54. The notable improvement in the trade account is attributable to the relaxations in the government Covid-19 restrictions, which allowed for easy movement of goods across the borders. The ongoing war between Ukraine and Russia is likely to influence a major increase in prices of goods, which will be clearly visible in the value of imports into the country.

55. Eswatini remains a major importer of services, as data shows that in 2021 the country recorded an estimated E2.422 billion in net services outflows. The country is mainly dependent on South Africa for most of its services due to its proximity in the region as well as its membership to CMA.

56. In the year ended December 2021, the external value of the Lilangeni/Rand was significantly stronger against the major trading currencies. The domestic unit recovered from the dismal performance in the previous year that was mainly characterised by COVID-19 negative effects. During the year, the domestic unit strengthened by over 10 per cent to average E14.78 per US

Dollar, a level closer to pre-COVID-19 trading levels, from an average of E16.48 in 2020.

57. The significant appreciation in the domestic unit was largely supported by improved investor sentiments to emerging market assets linked to the favourable higher bond yields in South Africa. This anchored favourably for the demand of the Rand, which was further sustained by the strong commodity prices noted during the year.

58. While the Rand closed 2021 at a weaker position, it proved stronger and recovered in the first quarter of 2022 averaging E15.26 and ending the quarter at 14.48 to the USD. This slight appreciation is attributed to favourable trade balance and subdued Covid-19 developments during the quarter. These developments prompted positive international investor confidence in South Africa and ultimately boosted the performance of the Rand hence, the Lilangeni. The elevated international commodity prices are expected to support the domestic and regional exports industry, presenting upside potential for the Rand to appreciate.

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

59. In the short to medium-term, monetary policy is envisaged to have gradually tighten in response to the heightened inflation outlook amidst elevated oil prices and geopolitical tensions which are likely to cause supply chain disruptions as well as the

tightening monetary in line with policy environment at both global and regional level.

60. Despite the lower than expected outturn of inflation in recent months, inflation forecasts have remained on an upward trend for the short-to-medium term but growing at a slow pace compared to the forecasts of March 2022. The slow pace in inflation in the short-term is in line with the lower than expected inflation outturn for the month of March 2022. Upward pressures on inflation are generally expected from domestic and global economic developments. These upward pressures are mainly driven by the expected increases in Brent Crude Oil prices which lead to increases in SA and domestic fuel prices. Downward pressures to inflation are expected from the appreciation of the Rand/ Lilangeni exchange rate.

61. Therefore, the annual average inflation forecast for 2022 came slightly down to 4.10 per cent from 4.20 per cent forecasted in March 2022. The Bank forecasts inflation to average 4.02 per cent (from 4.05 per cent) in 2023 and 4.17 per cent (from 4.20 per cent) in 2024. In the medium term, the Rand is expected to remain weaker, exerting upward pressure on inflation. Increases in domestic administered prices are also expected. However, Brent oil prices are expected to stabilise and increase at a slower pace, somewhat cushioning against the inflationary pressures

Programme Director, I will now turn to Bank Supervision.

58. The Central Bank, through the Banking Supervision Division, regularly assesses the performance of banks in Eswatini in order

to foster safety and soundness of the banking system and the overall stability of the financial system.

59. The Bank, having finalized an impact analysis of Inspection Circular No.1 of 2020 to determine how effective it was as a policy intervention, a decision was made to revoke Inspection Circular No.1 of 2020 effective 31 March 2022. The revocation was influenced by the feedback from banks that COVID-19 impact on their banking book credits has been minimal and more importantly, a greater percentage of COVID-19 affected obligors granted relief measures have recovered and their accounts regularized and currently performing well.

60. The revocation of the Inspection Circular did not affect the current minimum liquidity and cash reserve requirements as prescribed in Circular No. 1 of 2020. These will be maintained until further notice and banks are therefore implored to utilize the “relaxed” requirements and improve credit intermediation in the sector.

61. The banking sector remained resilient and adequately capitalized during the period under review. Banks were compliant with all minimum regulatory requirements. Tier 1 capital and the total Capital Adequacy Ratio (CAR) stood at 15.7 per cent and 17.9 per cent in December 2021, respectively, well above the minimum statutory requirements of 6 per cent and 8 per cent, respectively.

62. Despite the prevalence of the COVID-19 pandemic during 2021, the banking system remained robust with a 2.69 percent year-

on-year growth in assets. Total assets amounted to E25.7 billion in December 2021 compared to E25.1billion in December 2020.

63. The difficult economic situation had an impact on the performance of loans as non-performing loans increased from 5.4 per cent in 2020 to 6.8 per cent in December 2021.

64. Profitability indicators of the banking industry showed a slight improvement in 2021. This could be attributed to asset management practices by the banks which ensured continued profitability of the banking sector despite the prevalence of the pandemic. Total industry after-tax profit increased by 42.5 per cent from E341.7 million in 2020 to E486.1 million in December 2021. Cost to income ratio slightly decreased from 64.4 percent recorded in December 2020 to 64.3 percent recorded in December 2021 which means that banks were able to contain costs during the period under review while increasing profits

65. The banks were in compliance with the liquidity requirements level with the industry recording 37.0 per cent in December 2021. The prescribed minimum liquidity requirement is 20 per cent for the commercial banks and 18 per cent for the development banks.

66. The Bank fully implemented Basel II in 2021. During the period under review all the banks had submitted their Internal Capital Adequacy Assessment Process (ICAAP) documents which is a process that allows banks to assess their capital adequacy and requires them to have appropriate risk management techniques

in place. This process is summarized in the ICAAP document which should be completed by banks on an annual basis.

67. The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

68. Under Pillar III which looks at market discipline disclosures, all the banks did submit their returns which disclosed their market conducted. This information will be submitted to the Bank on a quarterly basis.

69. The Central Bank developed a Guideline for Large Exposures. The main objective of this guideline is to align the large exposure calculations with best practice as recommend by the Basel II guideline which recognizes Tier I as eligible capital.

70. The guideline also addresses issues of concentration risk which may result in a bank having an exposure to a group of counterparties with specific relationships or dependencies such that, were one of the counterparties to fail, all the counterparties would very likely fail.

Programme Director, I will now speak on the national payments system.

71. The CBE endeavours to modernise the payments landscape, lower transaction costs and to foster interoperability between the different payment systems and service providers. The CBE together with the industry also launched a National Domestic Switch Project in 2020. The project kicked off with a

benchmarking exercise that was followed by an in-country preliminary business consulting phase.

72. The in-country industry consulting phase consisted of five major activities i.e., Analysis on Current Status of Eswatini to inform specific business needs in Eswatini, Case Study on business Best Practices, Service Design, System Design, and an Implementation Plan. Based on the benchmarking exercise, the CBE selected Korea Financial Telecommunications & Clearing Institute (KFTC) as a Business Consultant to conduct the preliminary study.

73. The Preliminary Study Report was adopted by the CBE and the industry, and it informed the development of the adopted implementation approach and project plan. A Request for Proposals was issued, and the project is currently at a vendor contracting stage. Once a vendor is on-boarded, the project will move to the system design, system implementation and finally the system operation stage. Alongside this process, supporting regulatory framework is undergoing review and update to provide legal certainty in line with international best practice.

74. In line with the NPS Vision and Strategy 2021-2025, the CBE continued to coordinate reforms in the payment systems regulatory framework aimed at mitigating legal, operational, financial, and systemic risks. The CBE has made great strides in the ongoing review of the National Clearing and Settlement Systems Act, 2011. The internal approval processes for the draft Bill have been completed and the Ministry of Finance vetted and

submitted the Bill to Parliament to meet requirements and due processes for promulgation.

Let me now talk about financial technology (FINTECH) developments

75. Ladies and Gentlemen, the COVID-19 Pandemic and its limitations on people's mobility due to social distancing has increased the need for financial institutions to adopt electronic means to servicing their customers.

76. During the period, financial institutions in Eswatini have also used electronic means such as allowing customers to send their know-your-customer (KYC) documents via email during the account opening process or when updating their KYC documents. Some financial institutions have introduced new [digital] products that use remote onboarding. This means that customers can now open bank accounts from the comfort of their homes.

77. While remote/digital onboarding is convenient and saves on time and travel costs for customers, it also carries serious risks for the various market participants. For that reason, the Bank envisages to develop guidelines that banks should follow when implementing digital onboarding or electronic know-your-customer (EKYC) tools in order to mitigate the risks.

78. Over the past months, cryptocurrencies have received increased media attention with reports on price movements, news on millions lost to investment scams and very high volatility, and the acquisition of non-fungible (NFT) tokens for millions of dollars. The Bank has accelerated its efforts to investigate

crypto assets and their implication on the local financial system. The Bank's research efforts include understanding the different types of crypto assets, their use cases, local adoption, potential benefits, potential risks and how they interact with the traditional financial system.

79. It will be important for the Bank to ensure that the full range of risks associated with crypto assets are identified and addressed in line with the bank's mandate for financial integrity and stability. The objective of the Bank's efforts is not to hinder innovation but to support responsible innovation while preserving consumer confidence and trust in the Eswatini financial system.

80. Collaboration continues to be at the centre of driving Fintech innovation and creating an enabling environment. To that end, the CBE remains an active member of the Eswatini Fintech Working Group (EFWG) and the Global Financial Innovation Network (GFIN).

81. EFWG – The FinTech Unit has been instrumental in successfully delivering the key two programmes of the EFWG, the IndabaX and Machine Learning Hackathon and the User Experience Design Workshop. The two programmes aimed to build capacity and stimulating innovation in the financial industry.

82. In the previous year, the CBE successfully exited one fintech firm in the fintech regulatory sandbox. It also received 2 applications from start-ups in the digital payment space. This is a decline from the 2020/21 period.

83. The decline in applications and other learnings from operating the sandbox has necessitated that the Bank reviews the sandbox guidelines. Therefore, the FinTech Unit has kick-started the sandbox review process. The review aims to identify challenges faced by the sandbox applicants at all levels and suggest workable solutions to encourage robust usage of the framework.

84. Pursuant to the Bank's conclusion of the first phase of the country's CBDC Diagnostic Study back in 2020, during this period the CBE Fintech Unit completed the project charter for CBDC Research and Development (R&D). The charter established an R&D project and a working group (WG) to progress the Bank's research and exploration into CBDCs. Whilst the primary focus of the CBDC R&D project will be a retail CBDC, the CBDC WG also seeks to explore opportunities to test a wholesale CBDC for cross-border alongside members of the CMA and is awaiting the confirmation for the CMA secretariat of the Establishment of CMA CBDC cluster to commence regional discussions.

85. The CBDC consultant will also assist the bank in coordinating and identifying research/ technology partners and stakeholders to design and test a localised CBDC architecture and enhance internal capacity for the Bank to strengthen our body of knowledge in CBDC. The scope of work also includes a legislative gap analysis for regulatory changes needed should the Bank decide to implement CBDC coupled with a regulatory impact analysis to assist stakeholders in understanding the cost vs benefit of implementing a CBDC countrywide.

Programme Director, ladies and gentlemen, I will now move forward to touch on Financial Surveillance (formerly Exchange Control).

86. On 24 March 2022, the Central Bank launched the Financial Surveillance Division, unveiling the transformed approach of the Bank in administrating use of foreign currency in the country. With this approach, the Central Bank is aiming at increasing the ease of transacting in foreign currency for customers whilst not losing sight of the monitoring of cross border foreign exchange activity in order to increase foreign reserves while boosting investor confidence in the processes relating to injecting capital and repatriating profits and dividends.

87. With the introduction of the financial surveillance approach to administrating foreign currency, we envision the financial sector to be welcoming and being in alignment with government initiatives. There will be benefits to the investor and the public as there will be a significant reduction in the transactions that require prior approval of the Central Bank before they can be effected. Integrity of the financial sector will still be assured as financial institutions will still practice the necessary due diligence measures, with the Central Bank ensuring efficient oversight.

88. The Bank participated in the country's Mutual Evaluation conducted by the Eastern African Anti-Money Laundering Group (ESAAMLG). This assessment aims to analyse the level of compliance with the Financial Action Task Force (FATF) 40 recommendations and the level of effectiveness of Eswatini's

Anti Money Laundering/ Combating Financing of Terrorism (AML/CFT) systems.

89. A report on the findings has been shared with the country. The mutual evaluation report highlights that the highest money laundering (ML) threats in Eswatini stem from drug trafficking, corruption, tax evasion, fraud and smuggling of goods. The main channels to launder the proceeds of crime appear to be the financial institutions (FIs), in particular banks (due to their size and exposure).

90. The Bank`s continued Anti Money Laundering/ Combating Financing of Terrorism (AML/CFT) supervisory efforts ensures that Money Laundering / Terrorist Financing (ML/TF) risks in the sector are identified, assessed and evaluated to ensure that timely and adequate control measures are adopted to manage ML/TF exposure as identified.

91. The ML/TF risk management process has assisted the Bank in adopting proportionality in financial policies and regulatory frameworks, and this has resulted in the adoption of principle based and a forward-looking regulatory approach. This inclusive approach enables the application of AML/CFT standards that are commensurate to each institution under the supervision of the Central Bank in terms of size, product range and complexity, amongst other features.

92. The CBE as a supervisory authority has enhanced the Anti Money Laundering/ Combating Financing of Terrorism and Proliferation (AML/CFT/ P) Guideline for regulated entities within its

regulatory ambit to align money laundering and financing of terrorism and proliferation risk management practices to the FATF requirements.

93. The new guideline is known as AML/CFT/P Risk Based Approach Guideline for Entities Licensed by CBE No.1 of 2022. This Guideline recognizes that the Risk Based Approach (RBA) is built on, and reflects, the CBE's legal and regulatory approach, the nature, diversity and maturity of the Eswatini financial sector and the risks inherent in the sector. This will assist our sector in management ML/TF/P risks.

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

94. During the period ending 31st March 2022, notes issued amounted to E6.5 billion showing a slight increase from the E6 billion issued in the same period in the previous year. Coins issued over the period amounted to E27.6 million, indicating a slight decrease from the E27.8 million reported in the previous year. As at the end of March 2022 currency in circulation was E1.240 billion equating to an 8 percent decline from the E1.351 billion reported last year.

95. The Bank minted a series of new coins for all denominations (i.e. 10c, 20c,50c, E1, E2 and E5) during the year under review. The coins have already been issued into circulation. The following two features changed in the minted coins:

- The country's name changed from Swaziland to Eswatini.
- The date of issue of this series changed from 2015 to 2021.

There are no other changes on the coins and the alloys remain the same, maintaining the same security features, sizes, and colour.

96. The CBE launched the first of its kind Currency Museum in the third quarter of the 2021/2022 financial year. The Currency Museum was officially opened by His Excellency, the Prime Minister on behalf of His Majesty King Mswati III on 10 November 2021. The museum aims to preserve and showcase the historical legacy of the Kingdom's currency. Amongst the exhibits is the country's currency from inception to date. The facility is open to the public by appointment.

97. The Bank continued with the implementation of the coin management efficiencies project aimed at improving coin recirculation. This project has been rolled out in phases. The first phase was the installation of a coin counting and sorting machine with a packaging solution and the second phase undertaken in the 2021-22 financial year was the piloting of a coin vending machine which the public can utilize by depositing their coins in the machine and obtaining a receipt that can be redeemed at the relevant retail outlet and used for purchases.

98. The public is encouraged not to hoard coins but to use these for purchasing goods and services so as to ensure the effective and efficient circulation of coins.

Programme Director, let me make a few remarks on financial sector stability

99. Developments in the key risks to domestic financial stability eased year-on-year. Concerns in some areas however persist and could weigh on financial stability in the medium term. Emerging risks in the political economy are expected to have implications on financial system institutions in the long run. Impact on financial system stability is not anticipated in the near term.

100. Risks from the global economy remain elevated when compared to pre-pandemic years due to slow economic recovery from the effects of the COVID-19 pandemic. Persistent low economic growth and prolonged COVID-19 prevalence driven by the emergence of more transmittable variants set back the pace of economic recovery and consequently the resolve of policy support. This resulted in pockets of vulnerability in the financial system and anticipated to persist in the medium term.

101. Risks from the household sector, driven by household debt remained elevated despite unprecedented monetary and fiscal policy support. Household debt sustainability remains a concern in an environment of high unemployment, low saving and relatively rising costs of living. Disposable income is expected to remain strained in the medium term as policy support is gradually withdrawn.

102. Risks from the corporate sector were largely COVID-19 impact led in the past year. Corporate sector profitability declined in the past year, observed in both large corporates as well as micro, small and medium enterprises (MSMEs). Corporate indebtedness also declined marginally in the past year, mainly observed in large corporates. Despite declining debt levels, they

still raise debt service capacity concerns due to strained profits, low economic productivity as well as the withdrawal of policy support.

103. As alluded to earlier on, the banking system remained sound and stable in the past year. The banks complied with minimum capital requirements and banking sector earnings and profitability showed some improvements in the past year as lockdown restrictions eased. Additionally, banks' asset quality improved and banks increased their investments in safer/liquid assets during the year.

104. The Eswatini Payment and Settlement System (SWIPPS) and Eswatini Clearing House (ECH) operated efficiently in the past year and experienced growth in volumes and values. SWIPSS and ECH operated satisfactorily and exhibited a high degree of availability and reliability. Risks to financial stability from the National Payment System remain minimal but the Bank acknowledges the risks associated with infrastructure that support the payment system's reliability and efficiency. The Bank remains committed to ensuring that the national payment system remains resilient and efficient thus instilling confidence in the financial system's stability.

105. The non-bank financial institutions (NBFI) sector remains resilient despite a very testing economic environment driven by the impact of COVID-19. In the insurance sub-sector, premium and investment income grew in the last year as the sector entered a rebound phase driven by improved performance in the financial markets and eased lockdown measures. The pension

sector remains highly interconnected with the rest of the economy with the various nexus between the pension sub-sector and the real, fiscal as well as the rest of the financial sector increasingly getting more complex thus requiring close monitoring. Risks from the NBFI sector remain driven by lingering effects of COVID-19 on the various nexuses between the NBFIs and the rest of the economic sectors.

Programme Director, in conclusion

106. The year 2021 presented a number of challenges with COVID-19 remaining persistent as well as the unprecedented political unrest. In line with subdued inflationary pressures, the Bank maintained an accommodative monetary policy stance to support economic growth. However, the Bank embarked on a tightening cycle in 2022 as inflationary pressures began to emerge and global and regional monetary policy also tightened.

107. Program Director, ladies and gentlemen, I wish to assure the country that the Bank will continue to monitor developments at global, regional and domestic level, 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!!!