



GOVERNOR'S TALKING NOTES ON THE 2022/23 CBE ANNUAL INTEGRATED REPORT PRESENTATION HAPPY VALLY HOTEL, 2 OCTOBER 2023

Programme Director
Honourable Minister for Finance
Senior Government Officials
Central Bank Board Members
Members of Monetary Policy Consultative Committee
Heads and representatives of banks and other financial institutions
CEOs and representatives of private sector companies
Management & staff of CBE
Representatives of the media
Distinguished Guests
All Protocol Observed,
Distinguished Ladies and Gentlemen

1. It is a great pleasure and honour for me to deliver the 6th edition of the Bank's Annual Integrated Report for the financial year 2022/23. May I take this opportunity to welcome you all to this event and trust that we will all benefit on the time spent during this presentation and the discussions thereafter. May I also take the opportunity to welcome all those who have joined virtually in this session.
2. Allow me, ladies and gentlemen, to express my profound gratitude to the Central Bank of Eswatini team that have worked tirelessly in compiling and designing this informative and insightful report.

INTEGRATED REPORTING

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

4. Matters included in the Integrated Report are aimed at informing and providing assurance to stakeholders on the Bank's ability to deliver on its mandate, commitment to sustained relationships and responsible corporate citizenship.

MATERIALITY

5. Programme director, allow me to first highlight that in ascertaining matters of materiality for disclosure in our Integrated Report, we have considered whether the matter significantly or has a potential to significantly affect our strategy and business model. The issues of materiality pertain to the stability of the financial sector and price stability conducive to economic growth to fulfil stakeholder expectations in the short, medium and long-term.

OUR BUSINESS MODEL

6. Pertaining to our business model, operations run the organisation whilst strategy transforms it. We run our operations through business processes / systems and we execute our strategy through programmes. In all our undertakings, business departments and our stakeholders remain integral in driving our processes.

ECONOMIC DEVELOPMENTS

GLOBAL

Ladies and gentlemen, let me turn to global economic developments;

7. According to the IMF World Economic Outlook (WEO) Update published on 25 July 2023, global growth slowed down from 6.3% in 2021 to 3.5% in 2022. Growth for both 2023 and 2024 is projected at 3.0%. According to the IMF, several shocks have hit a world economy already weakened by the COVID-19 pandemic. These include;

- Higher-than-expected inflation worldwide, especially in the United States and major European economies, triggering tighter financial conditions;
- Worse-than-anticipated slowdown in China; and
- Further negative spill-overs from the Russia-Ukraine conflict.

Inflation

8. Programme director, according to the IMF, inflation is easing in most countries. However, it remains elevated with divergences across economies and related inflation rescue measures.

9. For 2022, world consumer prices were recorded at an annual average of 8.7% following an average of 4.7% in 2021. In 2023, world consumer prices are expected to ease to 6.8% and further edge lower to 5.2% in 2024.

South Africa

10. Ladies and gentlemen, coming closer to home in South Africa, the economy grew by 1.9% in 2022 compared to a higher growth of 4.7% in 2021 in accordance with Stats SA. The South African Reserve Bank's GDP growth forecasts published during its September 2023 Monetary Policy Meeting show that GDP growth for 2023 is forecast at 2.6% and will edge up marginally to 2.7% in 2024.

11. Annual headline inflation in South Africa averaged 6.9% in 2022, following an average of 4.6% in 2021. It is projected to average 5.8% in 2023 and slow to 4.8% in 2024. Latest numbers by Stats SA reveal that annual inflation rate was at 4.8% in August 2023, after four consecutive months of decline. It remains within the South African Reserve Bank's target range of 3% - 6%.

DOMESTIC

Distinguished participants, let me turn to the domestic economic developments;

GDP developments

12. Economic activity, as measured by the Annual Gross Domestic Product, grew marginally by 0.5% in the year 2022, from a revised 10.7% growth in 2021. The realised growth is 0.1 percentage point above the January 2023 forecast (by the Macro-Forecasting Team) of 0.4%. The subdued growth was mainly attributed to previous year's high base effects, negative impacts of geo-political tensions,

tightening financial conditions as well as fiscal challenges due to lower SACU inflows in the fiscal year 2022/23.

13. Economic growth is projected to improve to 4.7% in 2023. The strong performance will be driven by the secondary sector, which is expected to grow by 1.2% in 2023, compared to a contraction of 0.6% in the previous year. Construction activity is also expected to recover in 2023, supported by an improvement in the government cashflow position.

14. In the medium-term (2024 to 2026), growth is envisaged to average 3.3% with a peak of 4.9% in 2024. Continuous implementation of multi-billion projects (such as the Mkhondvo-Ngwavuma Water Augmented Program) as well as the commencement of projects earmarked to support the energy sector will be the main drivers of growth in the medium-term.

15. Economic activity, as measured by the Quarterly Gross Domestic Product, grew by a slower 1.1% year-on-year (seasonally adjusted) in the first quarter of 2023, down from a revised growth of 6.7% in the fourth quarter of 2022. The slight growth observed in the first quarter of 2023 was attributed to positive performance in the primary and tertiary sectors. On a quarter-on-quarter basis, economic activity grew by 2.5% (seasonally adjusted), from a revised contraction of 0.3% in the previous quarter.

Inflation Dynamics

16. Ladies and gentlemen, on inflation dynamics - annual headline inflation averaged 5.3% for the 2022/23 financial year from 3.6% in the previous financial year. It averaged 4.8% for the 2022 calendar year. Main drivers were increases in food and transport inflation.

17. Headline consumer inflation dropped to 4.0% in August 2023, compared to 4.5% in July 2023. Deflationary pressures emanated from the price indices for 'food & non-alcoholic beverages' and 'transport'.

Public Finance

18. On public finances, Government has committed to fund the Revenue Stabilization Fund in two equal instalments of E750 million beginning this week when SACU revenue is received to reach the E1.5 billion target by the end of the financial year. This will go a long way in cushioning reduced SACU receipts in the future.

19. Total public debt is estimated at E33.2 billion or 41% of GDP at the end of August 2023, from E32.9 billion recorded in March 2023. The rise is attributed to a growth in external debt mainly as a result of the depreciation of the local currency against the US Dollar and other major currencies in which the country's external liabilities are denominated.

Balance of Payments

20. Programme Director, I am happy to report that the country's position with the rest of the world continues to be competitive given

the healthy trade balance as evidenced by the external sector statistics. Data for the year 2023 indicates that Eswatini recorded a cumulative merchandise trade surplus of E737.3 million for the first eight months of 2023, which is a complete turnaround from the deficit of E551.4 million recorded in the first eight months of 2022.

21. This surplus was on account of a higher growth rate in exports compared to imports in the first eight months of the year 2023 compared to the same period last year; exports increased by 15% to E23.1 billion, whilst imports increased by a lower 7% to E22.4 billion.

Private Sector Credit

22. Ladies and gentlemen, on credit extension - credit extended to the private sector remained resilient but at a slower pace than in 2021. It grew at an average of 4.2% in 2022 compared to an average of 8.2% in 2021.

23. In August 2023, credit to the private sector closed at E18.6 billion, higher by 1.8% month-on-month and 11.6% year-on-year. The increase in private sector credit was largely driven by credit to other sectors of the economy.

External Reserves

24. On reserves management, the reserves' import cover declined from 2.6 months the previous year to 2.5 months at end of March 2023, with 2.7 months average for the 2022/23 financial year. Latest information reflects that gross official reserves settled at E8.4 billion,

sufficient to cover 2.7 months of imports of goods and services as at 22 September 2023.

25. The Bank continues to explore opportunities to build reserves through:

- accumulation of foreign currency export proceeds from local commercial banks;
- pushing for more diverse trading products to capture all export flows;
- implementing an optimised portfolio for Special Drawing Rights holdings; and
- improving open market operations in order to manage domestic liquidity and its impact on reserves.

BANKING SECTOR

26. Distinguished participants, regarding the banking sector, I wish to report that the banking system remains sound - with strong liquidity buffers and adequately capitalised. The sector continued to be profitable, demonstrating financial sustainability. At the same time, asset quality marginally improved as reflected by a decrease in the industry's non-performing loans (NPLs) ratio. The NPLs ratio declined to 7.2% in March 2023 from the 7.4% reported in March 2022. NPLs further declined to 7.1% as at end of June 2023.

27. On Licencing, the Bank believes that it has significantly lowered the perceived barriers to entry in the industry by opening for more

players through the introduction of the new CBE Policy on Licensing of Banking and Financial Institutions No.1 of 2021 that accommodates various types of licenses at tiered levels.

28. With regard to market conduct and consumer protection, the Bank continues to strengthen supervision to ensure that financial consumers are treated fairly including monitoring banks' compliance with the Consumer Credit Act, 2016 (as amended). The CBE also introduced a robust pricing review for the banking industry to ensure that banks charge fair fees for their products and services.

FINANCIAL STABILITY

29. Ladies and gentlemen, on financial stability - the Bank is continuously monitoring economic developments to ensure that imminent risks are swiftly corrected to preserve financial stability. The aim is to ensure that the financial system is capable of withstanding internal and external shocks. Key risks to the financial system stability were elevated when compared to the previous years, but with no destabilising impact.

30. Risks emanating from the external and domestic economic environments, household sector, corporate sector and banking sector remained high. On the other hand, risks from the payment and settlement system remained relatively low over the reporting period.

MONETARY POLICY

31. Programme director, turning to monetary policy formulation and implementation - the Bank has the goal of attaining price stability as well as a stable and sound financial system that will ensure sustainable economic growth. Eswatini's monetary policy objective, as stated in Section 4 of the CBS Order of 1974 (as amended), is to ensure price and financial stability.

32. Monetary policy formulation is, to a large extent, influenced by the country's membership to the Common Monetary Area (CMA). To influence monetary conditions in the country and achieve its mandate, the CBE uses the following tools:

- Discount rate (which happens to be the major one);
- Reserve requirement;
- Liquidity requirement; and
- Open market operations.

33. Given the CMA Agreement, the intermediate goal of monetary policy in Eswatini is to maintain the peg with the South African Rand. This requires that the country's currency in circulation be backed by foreign currencies, as well as keeping adequate level of reserves to sustain the peg.

34. The Governor makes monetary policy decisions after consultative meetings with the Monetary Policy Consultative Committee (MPCC). The MPCC held 6 ordinary meetings during the review period. Over the reporting period, the CBE pursued a restrictive

monetary policy stance in line with tightening regional and global monetary conditions.

35. The discount rate currently stands at 7.50% since 22 July 2023 keeping a negative differential of 75 basis points against the South African repurchase rate. This happened as the CBE tried to be relatively supportive of economic growth.

NATIONAL PAYMENT SYSTEMS

Ladies and gentlemen, let me now turn to National Payment Systems;

36. The national payment system of Eswatini continues to undergo tremendous transformation. Following the discontinuation of cheques, the use of digital platforms continued to be on the rise. Mobile money usage has continued to grow over the years and has been identified as one of the key drivers of financial inclusion in the country. The Bank has also seen an increase in government-to-person payments.

37. Other developments in this space include the National Payment Switch project which kicked-off in the last quarter of the 2022/23 financial year following the contract award to PayLogic SA. The project is being implemented – and is destined to deliver fast payments, local switching, clearing and settlements of Card/POS/ATM transactions and open banking functionality for third-party payment service providers.

38. Distinguished participants, two weeks ago at Royal Villas - I was privileged to discuss the project implementation in detail where I had a highly interactive and informative engagement session with various stakeholders. I want to reiterate that completion of this project will mark a significant milestone in the evolution of the country's financial infrastructure and bring forth numerous benefits for businesses, financial institutions, and customers alike.

FINANCIAL TECHNOLOGY

Programme director, let me now turn on Fintech developments with more emphasis on the Central Bank Digital Currency (CBDC) project;

39. The CBE partnered with renowned international technology group Giesecke+Devrient (G+D) in September 2022 to research and explore the development of a potential CBDC. G+D's appointment stemmed from the completion of the 1st Phase of the CBDC Diagnostic Study conducted which found that a retail CBDC presented the strongest and direct opportunity for the adoption of a digital currency in Eswatini.

40. To ensure that consumers continue to have access to legally backed CBE money through the CBDC project, the Bank has continued its investigation into the possibility of issuing a Digital Lilangeni as a complement to cash. This involves understanding used cases and exploring design concepts of a potential digital currency in Eswatini which includes aspects of governance, accessibility, interoperability,

security and programmability. At the same time, there is an assessment of the potential impact on monetary policy.

41. One of the key lessons learned throughout the Eswatini CBDC project is the importance of considering the local context. Understanding the specific needs, preferences, and existing payment methods of the Eswatini market is crucial for the successful implementation of the CBDC.

42. Ladies and gentlemen, another important lesson learned is the emphasis on user experience and addressing customer pain points. During the project, it became evident that high fees and slow transaction speed were significant challenges for users. Therefore, it is crucial to design the CBDC in a way that provides a seamless and efficient user experience, minimising fees and transaction times.

43. Engaging key stakeholders early and often is another critical lesson learnt. It is important to engage stakeholders from various sectors, including financial institutions, merchants, and consumers, throughout the project to ensure that their perspectives and concerns are considered. Early engagement is important for building trust, gathering valuable feedback, and addressing any potential challenges or resistance to adoption.

CREDIT GUARANTEE SCHEMES

44. Distinguished participants, on the Credit Guarantee Schemes which the Bank administers on behalf of Government - the Bank

continued with its efforts to promote the Schemes in various fora to increase visibility and improve their performance as they are currently under-utilised. Most recently, the Schemes were promoted at this year's International Trade Fair where the Bank participated.

ENTERPRISE RISK MANAGEMENT

45. Programme director, during the financial year 2022/23, the Enterprise Risk Management (ERM) function of the Bank continued with the implementation of the ERM strategy as informed by the corporate strategy. The focus was to address all the issues that compromise the effectiveness of the function in ensuring efficiencies and effective delivery of the Bank's mandate.

46. A momentous achievement of level 5 maturity level was attained in the self-assessment tool prescribed by the International Operational Risk Working Group. Significant progress was recorded in four of the aspects considered for the ERM Maturity assessment; being Risk Management Process, Risk Reporting, Risk Culture as well as Scope and Outcome. There is still room for improvement in the Risk Organisation aspect which addresses the level of involvement and ownership of risks by all role owners.

47. Ten (10) factors from both the internal and external operating environment of the Bank were considered to pose significant threats or opportunities in the Bank's strategic initiatives and day to day operations for the year 2022/23. These were monitored and reviewed

on a quarterly basis to inform implementation of intervention measures to ensure that the mandate of the Bank is fulfilled.

48. Top 13 risks were identified to have the potential of affecting the Bank strategic objectives as they had an exposure level above the set appetite levels. These were mitigated through specific plans and none of these materialised or caused significant major incidents.

BUSINESS CONTINUITY MANAGEMENT

49. Ladies and gentlemen, the Bank, through its Business Continuity Management (BCM) Unit, continued to monitor business continuity risks to which it was exposed, as well as the impact of those risks on mission critical processes. This involved review of business continuity plans and developing strategies to ensure that critical functions can continue to operate during and after a disaster.

FINANCIAL RISK

50. Distinguished participants, the CBE is exposed to financial risks arising as a result of performing its statutory roles in terms of monetary policy implementation; investment activities relating to the management of foreign exchange reserves; as well as operation of payments and settlement activities. These activities expose the Bank to a variety of financial risks including foreign exchange, credit, interest rate and liquidity risks. The CBE, actively manages and mitigates these risks in its day-to-day business activities.

SOCIAL CORPORATE INVESTMENT

51. On Corporate Social Investment, the Bank fully appreciates that it has the responsibility to behave in a way that gives effect not only to its strategic objectives and direction, but considers the well-being of community and society as a whole. In addition, the CBE recognises its existence within a society that is faced with numerous challenges and acknowledges that it has a social responsibility to plough back to the community. Thus, the Bank's Corporate Social Investment initiatives underpin the organisation's community mission, which is to share wealth for positive change in the areas in which it is a major stakeholder.

52. As such, the Bank's Corporate Social Investment interventions were mainly directed to philanthropic initiatives during the 2022/23 financial year. The interventions amounted to E315,000 and focused on education, skills development and cultural activities.

STAKEHOLDER ENGAGEMENT

53. Programme director, on Stakeholder Engagement - the Bank engages with key stakeholder groups to ensure greater transparency, accountability and accessibility as well as to build constructive and sustainable relationships. Our philosophy is that, for CBE to successfully foster price and financial stability conducive to economic development in Eswatini, proper management of our stakeholder relations is fundamental. We have a Stakeholder Management

Framework to guide stakeholder engagement activities and processes.

54. During the reporting period, the Bank undertook a stakeholder satisfaction survey in order to identify gaps in stakeholder engagement and apply identified solutions to bridge the gap. The target was to achieve at least 75% stakeholder satisfaction levels by the end of the financial year. The survey indicated that stakeholder satisfaction levels stood at 74% – marginally lower than our target.

ICT STRATEGY

55. Ladies and gentlemen, on the ICT Strategy, the Bank - as part of best practice on the alignment of IT to business, progressed and concluded the redesign of its IT Governance System in line with the Control Objectives for Information and Related Technologies 2019 Framework. This will improve oversight over information and technology for the CBE, thereby ensuring that benefits are realised, risks and resources are optimised whilst improving stakeholder transparency.

56. Major projects being implemented by the Bank's ICT department include:

- the Cross Border Foreign Exchange Transaction Reporting System, Version 3.0;
- the Business Intelligence;
- the Electronic Documents & Records Management System;

- the Cyber Security Operations Centre; and the
- National Switch Project.

STRATEGY

57. Programme director, distinguished participants, coming to our strategy, the 2022/23 financial year marked the 2nd year of the implementation of our 2021-2024 Strategic plan. This strategy was anchored on four key areas being:

- Improvement of internal and external relations to achieve health dynamics;
- Restructuring the balance sheet and pursuing operational efficiencies;
- Transforming the CBE to a dynamic and responsive organisation;
- Positioning the CBE to thrive in the new normal as influenced by the 4th Industrial Revolution.

Our strategic objectives and action programmes, each with a detailed action plan, were derived from these focus areas.

58. In order to assess the current health status of the Bank and its ability to deliver on its objectives, periodic reviews were undertaken. Our major drive is operational efficiency and strategic relevance. Throughout the year - monthly and quarterly monitoring as well as evaluations to ensure the successful implementation of the strategy were done.

59. We execute our strategy through four programmes, namely; culture transformation, digital transformation, business process management and financial sustainability. The strategic programmes aim to reach our three-year goal, which is to be a dynamic, efficient, and relevant Central Bank in our ecosystem. Within each of the four programmes, there are several smaller projects to assist the programme achieve its overall objective. We monitor the execution of these projects using project management methodologies aimed at ensuring that the projects are completed on time, within budget, and within scope.

OUR PEOPLE

60. Ladies and gentlemen, turning to our major asset – being our staff, the Bank continued to attract and retain the best talent available in the Eswatini market, through robust recruitment and selection processes and keeping critical talent focused and engaged. The total number of all staff positions that exist in the CBE is 352 whilst the number of positions filled was recorded at 290 at end of March 2023. Vacancies stand at 63 whilst the turnover rate was recorded at 4.4% for the reporting period.

61. The Bank offers a structured graduate trainee programme aimed at fast-tracking the development of graduates for a specific period. The programme started in 2015 and total intake since then was recorded at 52; of which 19 were consumed by the Bank with 17 released to the economy. Currently, 16 Graduates Trainees are still

mentored under the programme. Similarly, the CBE has an internship programme meant for undergraduates to obtain practical experience relevant to their programme of study.

OMBUDSMAN

62. Programme director, the Bank has the Office of the Ombudsman, which is responsible for providing redress and dispute resolution to bank customers free of charge. In the year under review, the Ombudsman handled a total number of 36 complaints. Out of these, the Ombudsman was able to successfully resolve 30 complaints leaving 6 complaints carried over. Five (5) complaints were referred to the Ombudsman for Financial Services as they were related to institutions regulated by the Financial Services Regulatory Authority.

63. The Ombudsman appreciated the unalloyed cooperation from the banks who responded swiftly and positively to the Ombudsman and the general public and in particular the ordinary bank customer who believed in the ability of the Ombudsman to effectively deliver its mandate and provide redress. The Ombudsman continues to pledge its energies to the service of the financial industry and will work harder to redress the concerns of the ordinary bank customer.

OUR ETHICAL STANDARDS

64. Ladies and gentlemen, on Ethical Standards, the CBE is committed to the highest standards of ethical conduct and integrity in all its business activities. Our organisational culture provides and

promotes an environment that seeks to safeguard the interests of all our stakeholders. We hold ourselves to high ethical standards, support ethical decision-making and prevent as well as mitigate unethical actions.

ASSURANCE

Distinguished participants, let me now turn on Assurance;

65. Assurance for us largely refers to all mechanism to cover all sources, including external assurance, internal audit, regulatory inspections and management oversight. The assurance providers aim to enable the Board and management to assess whether the significant risks facing the Bank are completely assessed and adequately mitigated.

66. To further enhance assurance, the CBE has also established a Combined Assurance Forum which will be integrated into the Bank's assurance processes, ensuring a robust and comprehensive approach to assurance throughout the organisation. This development strengthens our commitment to fostering effective collaboration among various assurance functions - ultimately enhancing the CBE's ability to manage risks, ensure governance effectiveness, and safeguard our stakeholders' interests.

GOVERNANCE

67. Programme director, on issues of Governance - I wish to emphasise that the Board maintains full and effective control over the

operations of the Bank and is accountable and responsible for its performance and compliance. The Board reviews the strategic priorities of the Bank, determines investment policies and delegates to management the detailed planning and implementation of the objectives and policies in accordance with acceptable risk parameters. The Board monitors compliance with policies and achievements against set objectives by holding management accountable for its activities through performance reporting and budget updates.

68. The Board is assisted by 3 committees which all have their functions set-out in specific committee charters. The structure and composition of the committees is in line with international corporate governance best practice in central banks.

FINANCIAL PERFORMANCE

69. Ladies and gentlemen, on financial performance - the Bank made a profit of E385.8 million in 2022/23 - an increase from the E182.3 million profit recorded in 2021/22. A total of E445.46 million was paid by the CBE as dividend to the Government of Eswatini in line with the CBS Order of 1974. These payments were made after calculating a total comprehensive income of E1.01 billion (which also takes into account the E627.4 million revaluation gains) realised by the Bank in 2022/23.

CONCLUSION

70. Programme director, distinguished ladies and gentlemen, let me conclude by recognising that it has been a strong team effort, and I would like to extend my sincere thanks and appreciation to the Minister for Finance and his Officials, Board Members, all staff of the CBE as well as financial institutions and other key stakeholders.

71. Your cooperation, commitment, and dedication to the attainment of price and financial stability that is conducive to the economic development of the Kingdom of Eswatini is indeed valued. I have no doubt that I can continue to rely on you for unwavering support and dedication in the execution of our mandate and objectives in the interest of all Emaswati.

72. Without further ado, Programme director, I invite all of you to read the 2022/23 CBE Annual Integrated Report of which hardcopies are now being distributed and soft copies can be downloaded from the Bank's website.

73. Other suite of reports which I also implore you to familiarise yourself with include the 2022/23 Annual Economic Review Report, 2023 Governor's Annual Monetary Policy Statement as well as the 2023 Audited Annual Financial Statements. All these are readily available in our website.

With these remarks, Minister - I officially present the 2022/23 CBE Annual Integrated Report.

I Thank You!