

Notice on Amendments to Domestic Liquidity Management & Open Market Operations by the Financial Markets Department

July 2020



**CENTRAL BANK
OF ESWATINI**
Umntsholi Wemaswati



1. Introduction

This Notice provides an amendment to the current domestic markets liquidity management framework and Open Market Operations tools employed by the Central Bank of Eswatini (CBE). These amendments seek to enhance the liquidity management operations of the CBE through a review of current instruments and an introduction of new operational tools. The central bank is moving towards adopting a more active approach to domestic liquidity management with the ultimate objective of targeting a specific range for the level of excess liquidity in the domestic market that the CBE judges as consistent with maintaining the Foreign exchange currency peg to the South African rand. Also supporting this review is the advent of the Covid-19 pandemic, which made it necessary for the CBE to review some of the clauses in the Open Markets Operations toolkit to ease pressure on the banking sector and improve liquidity in the economy. The Bank will continuously monitor the impact and utilization of the reviewed market operations and respond accordingly when deemed appropriate.

2. Changes Implemented

The proposed amendments to the liquidity management and open market operations tools are summarized as follows;

2.1 *CBE Bills*

The CBE will re-introduce and issue by auction on a weekly basis its own paper (CBE bills) to drain surplus liquidity from the market consistent with meeting the CBE's targets for excess reserves. The auctions will be conducted on Thursdays and market participants will be invited to offer cash to the Bank on an auction basis. CBE bills qualify as statutory liquid assets and will be available in tenors of 7 days, 14 days and 30 or 31 days depending on the month. The Bank will inform Primary Dealers (PDs) of the indicative auction volume and the distribution in terms of tenor a week earlier for their planning. The final details for each auction will be then published on Wednesdays each week before the auction the following day. The commencement date for the issuance of CBE bills will be 06 August 2020.

2.2 *Overnight Lending Facility*



The cost of this facility is reviewed downwards with a spread above the CBE discount rate of 100 basis points from the current 400 basis points. The Bank will review the spread when deemed necessary. Furthermore, the prohibition for a bank, which has an overnight facility with the CBE to sell SZL against the ZAR has been uplifted. The Bank will closely monitor utilization of this facility and may review this position when deemed appropriate. All loans have to be collateralized with eligible security including Government securities and CBE paper.

2.3 Marginal Lending Facility

The marginal lending facility rate, which is the CBE discount rate plus 500 basis points has been reduced to the CBE discount rate plus 300 basis points. Usage of this facility will also be closely monitored with the view to reviewing it if deemed necessary. All loans will have to be adequately collateralized with eligible security including Government securities and CBE paper.

2.4 Term Discount Facility Window Facility

The CBE shall provide an expanded discount window facility temporarily to banks during times of financial distress or when a bank faces a specific liquidity requirement. Under this facility, the CBE will provide collateralized loans extending for periods up to 270 days in duration. The lending rates applicable to this facility will be determined by the CBE on a case by case basis but will be at a margin to the interest rates applicable on the CBE's other lending facilities. This facility is available to banks on a discretionary basis and under exceptional circumstances (e.g. CBE may grant this as a lender of last resort). Recipients of loans will be required to present a liquidity plan explaining the actions that will be taken to repay the loans in a timely manner. Recipients may be subject to enhanced monitoring and operational restrictions while loans are outstanding.

2.5 Call and Term Deposit Facility

The CBE will continue to offer call and term deposit facilities to commercial banks as means to drain liquidity from the local market. These facilities will remain available for the use by banks at their own discretion.



2.6 Late Delivery Charges on ZAR/SZL Trades

The Bank has also reviewed the charge to a bank that has failed to deliver ZAR on time and the funds end up placed on the SIRESS account. The bank will now be required to pay the difference between the interest received by the CBE on the SIRESS account and the interest that would have been earned on CPD. If a bank fails to deliver ZAR, then the overnight lending facility rate will apply.

3. Further Refinements

The central bank will continue to modify and develop its financial market and liquidity management operations. Market participants will be notified of any new developments and amendments in this regard. The effective date of this Notice is 13 July 2020.

Any enquiries relating to this Notice should be addressed to the General Manager, Financial Markets at the Central Bank of Eswatini, P.O. Box 546, Mbabane or Telephone 2408 2161 or e-mail: melvink@centralbank.org.sz or nhlanhlam@centralbank.org.sz.



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