



Financial Stability Review

JUNE 2024

Central Bank of Eswatini

Financial Stability Review

June 2024



GOVERNOR'S FOREWORD

It is with great pleasure that I present to you the Annual Financial Stability Review for the year ended June 2024.

This issue marks the 8th annual publication since 2017. This publication stands as a testament to the CBE's unwavering commitment to maintaining and enhancing the robustness of Eswatini's financial system. In a year broadly marked with triumphs, the insights contained herein reflect a nuanced understanding of the dynamics that have shaped Eswatini's financial landscape between June 2023 and June 2024.

The past review year was characterized by relative economic relief, influenced by global and domestic factors that have eased the strain on domestic financial institutions. The post pandemic era has been a testament to the collective efforts of domestic financial entities, regulators and policy makers to safeguard the resilience and robustness of the financial system.

In the preceding assessment, the FSR brought out concerns over the constraints experienced by the household sector, sluggish economic growth and a weakening of bank assets.

"This publication stands as a testament to the CBE's unwavering commitment to maintaining and enhancing the robustness of Eswatini's financial system".

However, the period under review reflects a positive turnaround, with a notable improvement in the Banks' asset quality. An easing of household balance sheets has also been observed, evidenced by an increase in disposable income, subdued inflation rates and the CBE's firm policy stance on interest rates in the review period.

In the past year, the global financial landscape has become more accommodating, attributed to several factors. Notably, a downturn in energy prices has led to a decrease in overall inflation, sparking optimism about potential monetary policies easing.

This optimism has led to expectations of lower interest rates, resulting in a decline in global long-term interest rates and a boost in financial markets across both advanced and emerging economies. Additionally,

the easing of financial conditions has been supported by the loosening of US monetary policy, which reached their most relaxed level since February 2022, contributing to lower borrowing costs and increased economic activity. This favorable scenario has laid the groundwork for mitigating risks to the domestic financial system, thereby supporting its ongoing resilience.

Gratitude is extended to the contributors who continue to support this report through data and imperative information. This information sharing is testament of the commitment to building a financial environment that is secure, efficient and conducive to sustainable economic growth.

Dr. Phil Mnisi
Governor



TABLE OF CONTENTS

GOVERNOR'S FOREWORD	4	3	DOMESTIC FINANCIAL STABILITY DEVELOPMENTS	24
LIST OF FIGURES	8			
LIST OF TABLES	9			
LIST OF ABBREVIATIONS	10	3.1	Eswatini Financial Conditions	25
EXECUTIVE SUMMARY	11	3.2	Fiscal Sector	26
 		4	HOUSEHOLD SECTOR	30
1 BROAD INDICATORS OF FINANCIAL STABILITY	12	5	CORPORATE SECTOR	36
1.1 Aggregate Financial Stability Overview	13	5.1	Small and Medium Enterprises	37
1.2 Systemic Risk Cobweb	13	5.2	Large Corporate	38
1.3 External Environment	14	6	BANKING SECTOR	39
1.4 Domestic Economy	14	6.1	Banking Sector Assets	40
1.5 Household Sector	15	6.2	Capital Adequacy	41
1.6 Corporate Sector	15	6.3	Earnings and Profitability	42
1.7 Banking Sector	15	6.4	Asset Quality	43
1.8 Payment System Stability	15	6.5	Liquidity Risk	44
1.9 Non-Bank Financial Institutions	15	6.6	Financial Soundness Index	45
2 GLOBAL AND REGIONAL FINANCIAL STABILITY DEVELOPMENTS	16			
2.1 Global Financial Stability Developments	17			
2.2 Regional Financial Stability Developments	20			
2.3 Summary of Risks from the Global Economy	23			



7	NON-BANK FINANCIAL INSTITUTIONS	46
7.1	BUILDING SOCIETIES	47
7.2	PENSION FUNDS	47
7.2.1	Pension Sector Assets	47
7.2.2	Penetration Rates	47
7.2.3	Domestic Investment Portfolio	49
7.2.4	Foreign Investment Allocation	50
7.2.5	Risks in the Pension Sector	51
7.3	CAPITAL AND FINANCIAL MARKETS	53
7.3.1	Capital Markets	53
7.3.2	Geographical Allocation of Total Assets	54
7.3.3	Financial Markets	54
7.4	INSURANCE SECTOR	56
7.4.1	Total Insurance Sector	56
7.4.2	Short-Term Insurance	56
7.4.3	Long-Term Insurance	56
7.4.4	Risks arising from the insurance sector	57

8	FINANCIAL MARKET INFRASTRUCTURES	58
8.1	Performance of Financial Market Infrastructures	59
8.2	Clearing and Settlement Systems	59
8.3	Mitigating Risks from Disruption of SWIPSS	60
8.4	Electronic Payment Systems	61
8.5	Mobile Money Payments	61
	APPENDICES	64
	STRESS-TESTING FOR ESWATINI BANKING SECTOR	70

LIST OF FIGURES

Figure 1.1	Aggregated Financial Stability Index	Figure 6.3	Capital Adequacy Index
Figure 1.2	Systemic Risk Cobweb	Figure 6.4	Earnings and Profitability Index
Figure 2.1	Advanced Economies Interest Rates	Figure 6.5	Non - performing Loans
Figure 2.2	Advanced Economies Inflation Rates	Figure 6.6	Asset Quality Index
Figure 2.3	IMF Financial Condition Index	Figure 6.7	Funding and Liquidity Index
Figure 2.4	South Africa Interest Rates and Inflation	Figure 6.8	Financial Soundness Index
Figure 2.5	SA Government Debt-to-GDP Ratio Outlook	Figure 7.1	Pension Sector Assets
Figure 2.6	Rand/Lilangeni Exchange Rate	Figure 7.2	Penetration Rates
Figure 3.1	Discount Rate, Inflation and Prime Lending Rates	Figure 7.3	Funded Status
Figure 3.2	Credit-to-GDP Gap	Figure 7.4	Domestic Investment Allocation
Figure 3.3	Public Debt/GDP Ratios	Figure 7.5	Foreign Investment Allocation
Figure 4.1	Loans by Industry	Figure 7.6	Pension Sector Interconnectedness
Figure 4.2	Credit to Households - Commercial Banks	Figure 7.7	Capital Markets Total Assets
Figure 4.3	Household NPLs	Figure 7.8	Treasury Bills and Average Discount Rates
Figure 4.4	Household Indebtedness	Figure 7.9	Selected Insurance Industry Indicators
Figure 4.5	Debt Service Ratio	Figure 8.1	Volumes and Values of SWIPSS Transactions
Figure 4.6	Household Wealth	Figure 8.2	Volumes and Values of Credit EFT Transactions
Figure 5.1	SMME Financial Soundness Indicators	Figure 8.3	Volumes and Values of Debit EFT Transactions
Figure 5.2	Large Corporate Financial Soundness Indicators	Figure 8.4	Registered Agents and Customers
Figure 6.1	Loans, Deposits and Assets	Figure 8.5	Volume and Value of Mobile Money Transactions
Figure 6.2	Banking Sector Capital Adequacy Ratios	Figure 8.6	Escrow Account Balances

LIST OF TABLES

Table 6.1	Earnings and Profitability
Table 6.2	Selected Sectors NPLs
Table 6.3	Liquidity Indicators
Table 7.1	Holdings of Eswatini Government Bonds
Table 8.1	Summary of activity in Eswatini Electronic Payment Systems
Table A9.1	Insurance Financial Soundness Indicators
Table A9.2	Selected Quarterly Financial Soundness Indicators
Table A9.3	Commercial Banks' Quarterly Financial Soundness Indicators
Table A9.4	Commercial Banks' Quarterly Balance Sheet
Table A9.5	Commercial Banks' Quarterly Income Statement year-on-year figures
Table A9.6	Summary of Stress Test Results for Loans Migration
Table A9.7	Default by Largest Borrowers
Table A9.8	Summary of Stress Test Results for Bank Run
Table A9.9	Sudden Withdrawal by Systemic Largest Depositor

LIST OF ABBREVIATIONS

CAR	Capital Adequacy Ratio	MEPD	Ministry of Economic Planning and Development
CMA	Common Monetary Area	NBFI	Non-Bank Financial Institutions
CSO	Central Statistics Office	POS	Point of Sale
ECB	European Central Bank	PSPF	Public Service Pensions Fund
EFT	Electronic Funds Transfers	REER	Real Effective Exchange Rate
EMDE	Emerging Markets and Developing Economies	RSA	Republic of South Africa
ENHB	Eswatini National Housing Board	SACCO	Savings and Credit Cooperatives
ERA	Eswatini Revenue Authority	SACU	Southern African Customs Union
ESX	Eswatini Stock Exchange	SADC	Southern African Development Community
FinTech	Financial Technology	SAECH	Swaziland Automated Electronic Clearing House
FMI	Financial Markets Infrastructure	SARB	South African Reserve Bank
FSR	Financial Stability Review	SSA	Sub-Saharan Africa
FSRA	Financial Services Regulatory Authority	STATSSA	Statistics South Africa
GDP	Gross Domestic Product	SWIFT	Society for Worldwide Interbank Financial Telecommunication
IAS	International Accounting Standards	The Fed	United States Federal Reserve Bank
IFRS	International Financial Reporting Standards	US	United States of America
IMF	International Monetary Fund	VAT	Value Added Tax
JSE	Johannesburg Stock Exchange	WEO	World Economic Outlook
KYC	Know Your Customer		
MECC	Macro-Economic Convergence Criteria		

EXECUTIVE SUMMARY

The Annual Financial Stability Review for the year ended June 2024 assesses the robustness of Eswatini's financial system in light of global and domestic economic developments and captures key risks and opportunities across various sectors, underscoring Eswatini's financial resilience despite external and internal pressures. Over the review period, Eswatini's Aggregate Financial Stability Index (AFSI) improved, reflecting positive shifts in financial stability indicators such as bank asset quality, private sector credit growth, and a rise in official reserves.

Global and Regional Context: A slowdown in global interest rate hikes and easing inflation in advanced economies provided a favorable backdrop, though rising global sovereign debt and geopolitical tensions pose risks. Regionally, South Africa's economic conditions improved, benefiting Eswatini through stabilized energy supplies and reduced currency volatility. However, challenges such as South Africa's high debt levels and continued Financial Action Task Force (FATF) scrutiny raise concerns that could affect Eswatini's financial ecosystem.

Domestic Financial Landscape: Domestically, fiscal conditions show cautious optimism with an improved debt-to-GDP¹ ratio, though high public debt and government spending remain long-term risks. In the household sector, financial stress eased due to higher disposable income and lower household indebtedness. However, unsecured lending remains significant, necessitating close monitoring given its vulnerability to interest rate fluctuations.

Corporate Sector: The corporate sector, particularly small and medium enterprises (SMEs), faces elevated financial strain. Leverage ratios have increased, and profitability declined significantly across both SMEs and large corporations.

This sector's vulnerabilities highlight potential risks for financial institutions exposed to corporate credit.

Banking Sector Stability: Eswatini's banking sector remained resilient, with capital adequacy and asset quality showing improvement. Banking assets grew significantly, driven by higher lending and deposits. However, profitability challenges arose from increased operational costs, and liquidity indicators weakened slightly, underscoring the need for cautious liquidity management.

Non-Bank Financial Institutions (NBFIs): The NBFI sector, including pensions and insurance, contributes substantially to Eswatini's financial system. While pension assets grew robustly, high concentration risk and external market exposures present notable challenges. In insurance, the short-term sector saw profitability constraints, while the long-term sector demonstrated resilience, supporting systemic stability.

Financial Market Infrastructure and Digital

Payment Systems: Payment systems exhibited resilience, bolstered by growing digital transactions. However, the rise in electronic payment adoption brings increased cybersecurity and fraud risks, which the Central Bank is addressing through regulatory oversight and public education on digital payment security.

Conclusion: Eswatini's financial system remains stable and capable of withstanding shocks, with ongoing enhancements in regulation and supervision critical to managing emerging risks. As the economy navigates global uncertainties and internal fiscal demands, the focus will remain on sustaining financial stability and fostering resilience across all sectors.

¹ At the time of compilation of this report, the rebased GDP figures were not available, hence the GDP figures used in this analysis predates the rebasing.



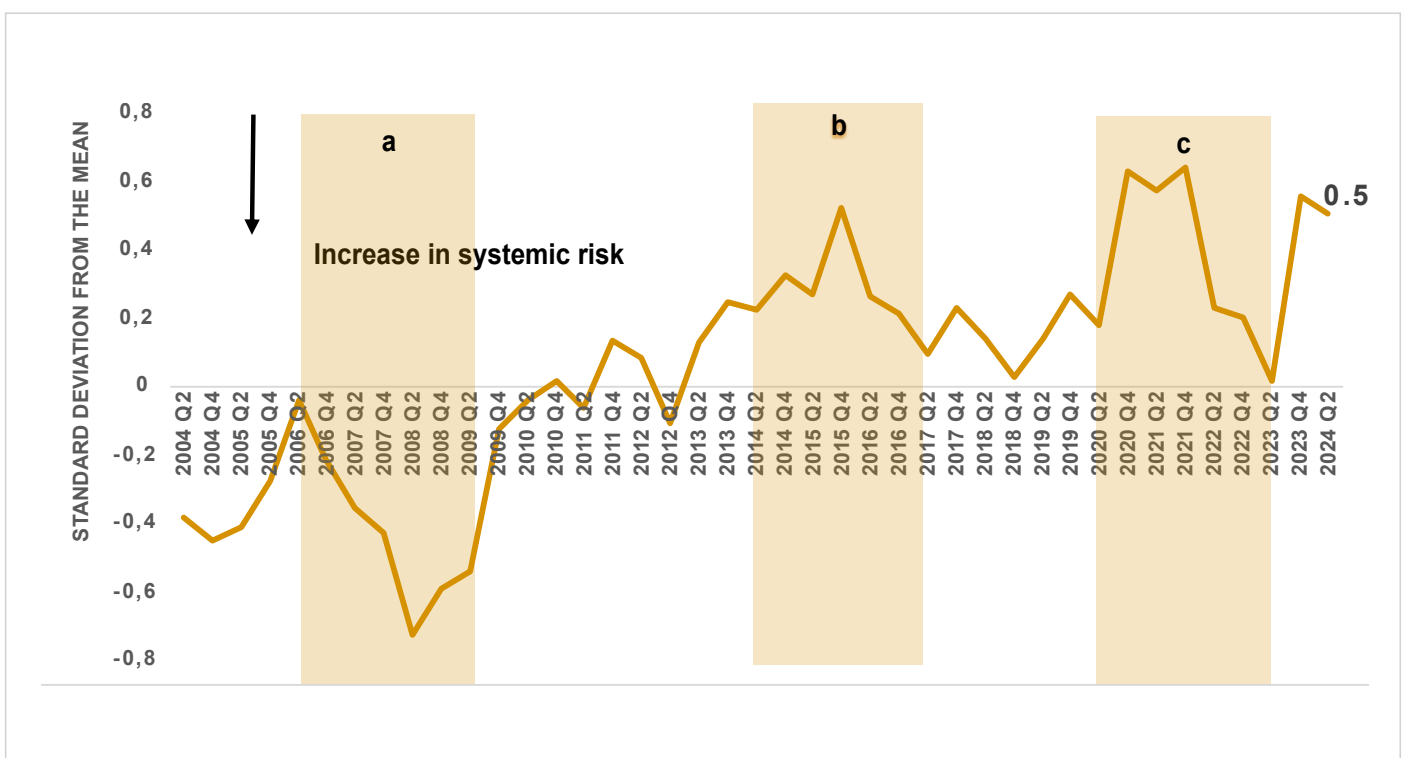
BROAD INDICATORS OF FINANCIAL STABILITY

1.1 Aggregate Financial Stability Overview

Domestic financial conditions showed notable improvement over the review period, as reflected in the rise of the Aggregate Financial Stability Index (AFSI) to 0.50 in June 2024, up from 0.02 in June 2023. This enhancement in financial stability was primarily driven by among other things,

increased total bank assets relative to GDP, a rise in private sector credit to corporates, an improvement in gross official reserves, growth in pension assets, a favorable interest rate spread, and a stronger market capitalization relative to GDP.

Figure 1.1: Aggregated Financial Stability Index



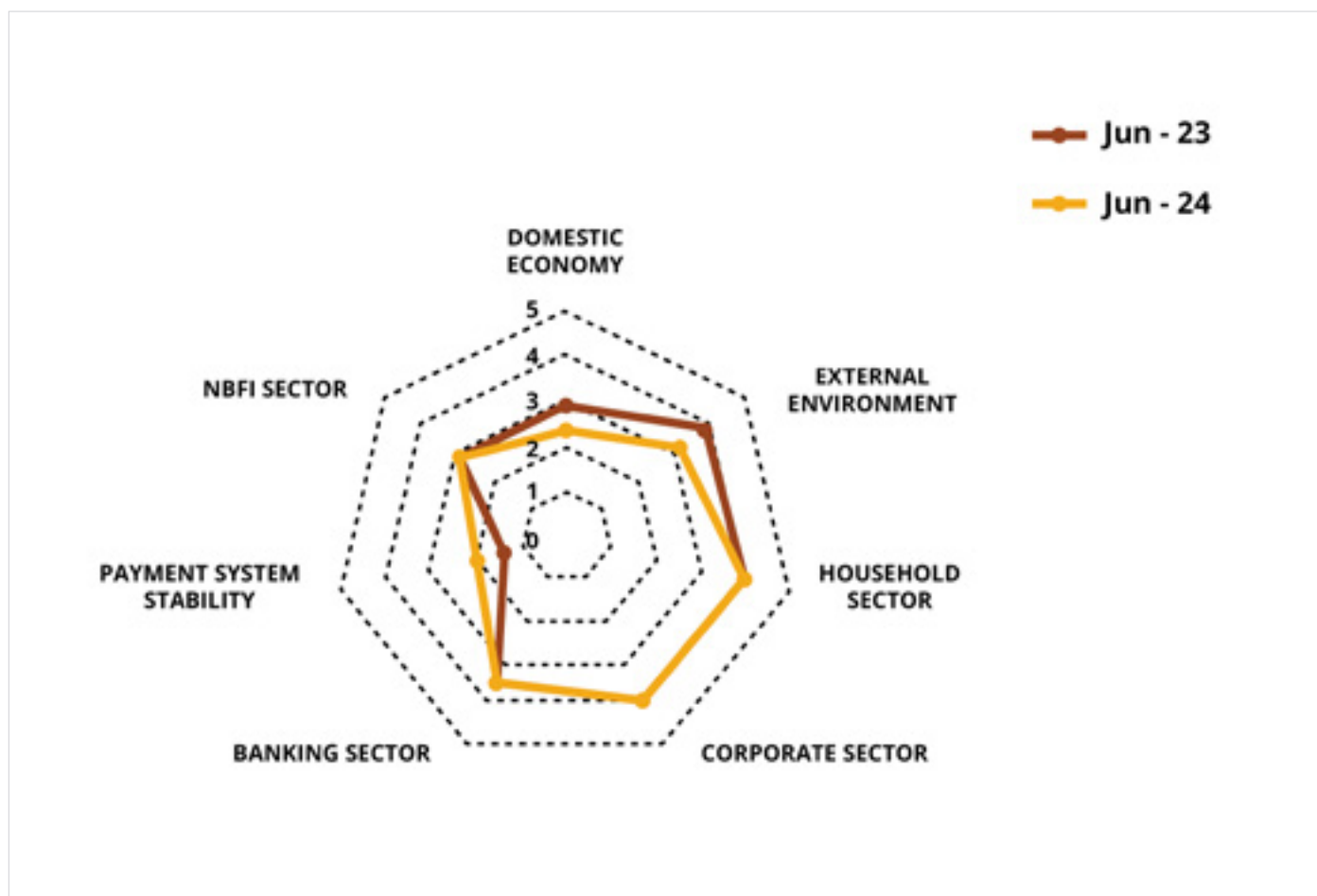
Source: Central Bank of Eswatini

1.2 Systemic Risk Cobweb

This section provides a detailed analysis of the evolution of risks from June 2023 to June 2024 assessment periods, offering a focused perspective through the use of the cobweb framework. It summarizes key risks across various sectors, including the domestic economy, external

environment, household and corporate sectors, banking sector, payment system stability, and the non-bank financial institutions sector, capturing critical insights into the broader financial stability landscape.

Figure 1.2: Systemic Risk Cobweb



1.3 External Environment

The external environment has shown improvement due to a slowdown in interest rate hikes and moderating inflation in advanced economies and the Common Monetary Area (CMA). However, rising sovereign debt remains a concern as governments tackle fiscal deficits. Recent reforms in South Africa have reduced the risks associated with the country's energy crisis, leading to a significant decrease in load-shedding incidents and positively impacting Eswatini's power supply.

Political uncertainty during South Africa's election period led to currency volatility. However, the formation of a reform-oriented cabinet strengthened the rand and instilled optimism regarding economic productivity for the Government of National Unity (GNU).

1.4 Domestic Economy

Risks from the domestic economy have significantly decreased over the past year, driven by favorable financial conditions. However, geopolitical tensions continue to elevate living costs, preventing substantial policy rate reductions. Improved government revenues have temporarily mitigated fiscal sector risks, but vulnerabilities persist due to high public debt and anticipated government spending increases on infrastructure and health sector projects. Continued vigilance is necessary to address these fiscal challenges amid rising expenditures.

1.5 Household Sector

The household sector has experienced a slight reduction in financial pressures, evidenced by a decline in household indebtedness from 79.1 percent to 74.3 percent, largely due to rising disposable income. Nonetheless, concerns about unsecured lending persist, as a significant portion of household credit remains unsecured, exposing lenders to potential risks. While non-performing loans (NPLs) in this category have shown resilience, ongoing monitoring is required, particularly as unsecured lending is sensitive to interest rate changes and fluctuations in disposable income. The overall financial health of households necessitates cautious management of debt levels to avoid adverse impacts.

1.6 Corporate Sector

Risks in the corporate sector remain high, consistent with the previous year, as both large corporations and SMEs face increased leverage and declining profitability. The SME sector has reported consecutive annual losses, primarily due to rising operational costs and reduced economic activity, while large corporations saw a dramatic 74.1 percent decline in profits.

The deteriorating debt-to-equity ratios indicate heightened financial vulnerability, alongside worsening interest coverage ratios for both sectors. This situation raises concerns about the potential for defaults and overall financial instability within the corporate landscape.

1.7 Banking Sector

The banking sector remained stable and compliant with capital requirements as of Q2 2024, despite a decrease from previous levels. Total banking assets increased by 9.9 percent to E28.9 billion, supported by growth in loans and deposits. However, the sector's profitability has declined, with the average return on assets falling from 2.6 percent

to 2.0 percent. Notably, asset quality improved, with non-performing loans decreasing to 6.7 percent from 7.1 percent recorded in June 2023, but a slight deterioration in liquidity was observed, requiring ongoing adherence to prudential standards.

1.8 Payment System Stability

Systemically important financial market infrastructures in Eswatini demonstrated resilience, operating without significant disruptions through June 2024. The adoption of digital payment channels grew, propelled by innovations from supervised financial institutions and increased public awareness. However, vulnerabilities to digital fraud and cybersecurity threats remain, prompting the Central Bank of Eswatini (CBE) to enhance public engagement regarding digital payment risks. Collaborative measures with the Eswatini Communications Commission (ESCCOM) aim to strengthen transaction security, particularly in mobile money operations.

1.9 Non-Bank Financial Institutions

NBFIs play a significant role in the financial landscape but pose risks due to their interconnections with both the domestic banking sector and foreign markets. Key vulnerabilities in the pension sector include market volatility and concentration in specific asset types, while the insurance sector faces challenges related to high market concentration and climate change.

Unsecured credit within Credit Financial Institutions (CFIs) and Savings and Credit Cooperatives (SACCOS) poses a risk to households' debt management capabilities. A year-on-year asset allocation shift towards the CMA region indicates a strategic response to rising equities and investor demand for better yields, reflecting evolving market dynamics.

2

GLOBAL AND REGIONAL FINANCIAL STABILITY DEVELOPMENTS

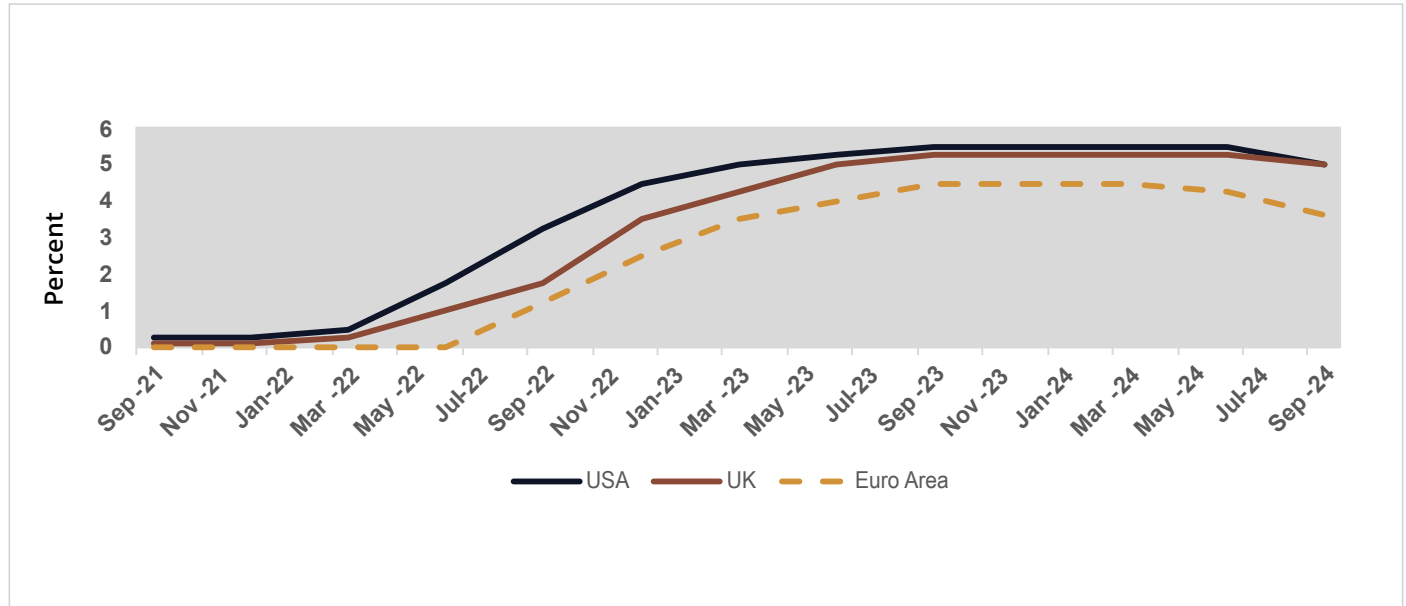
2.1 Global Financial Stability Developments

Global financial conditions remained relatively stable during the twelve months leading up to June 2024, as central banks in both advanced economies (AEs) and emerging market and developing economies (EMDEs) maintained relatively accommodative policy stances. Since the previous financial stability assessment, global inflation rates have exhibited a downward trend, as demonstrated by the easing of monetary policy implemented by the respective monetary authorities between June 2023 and June 2024. Central banks have continued this accommodative stance, with policy rates experiencing further reductions in the third quarter of 2024. Notably, in September 2024, the Federal Reserve in the United States lowered its policy rate by 50 basis points to 5.0 percent, marking the first reduction since March 2020.

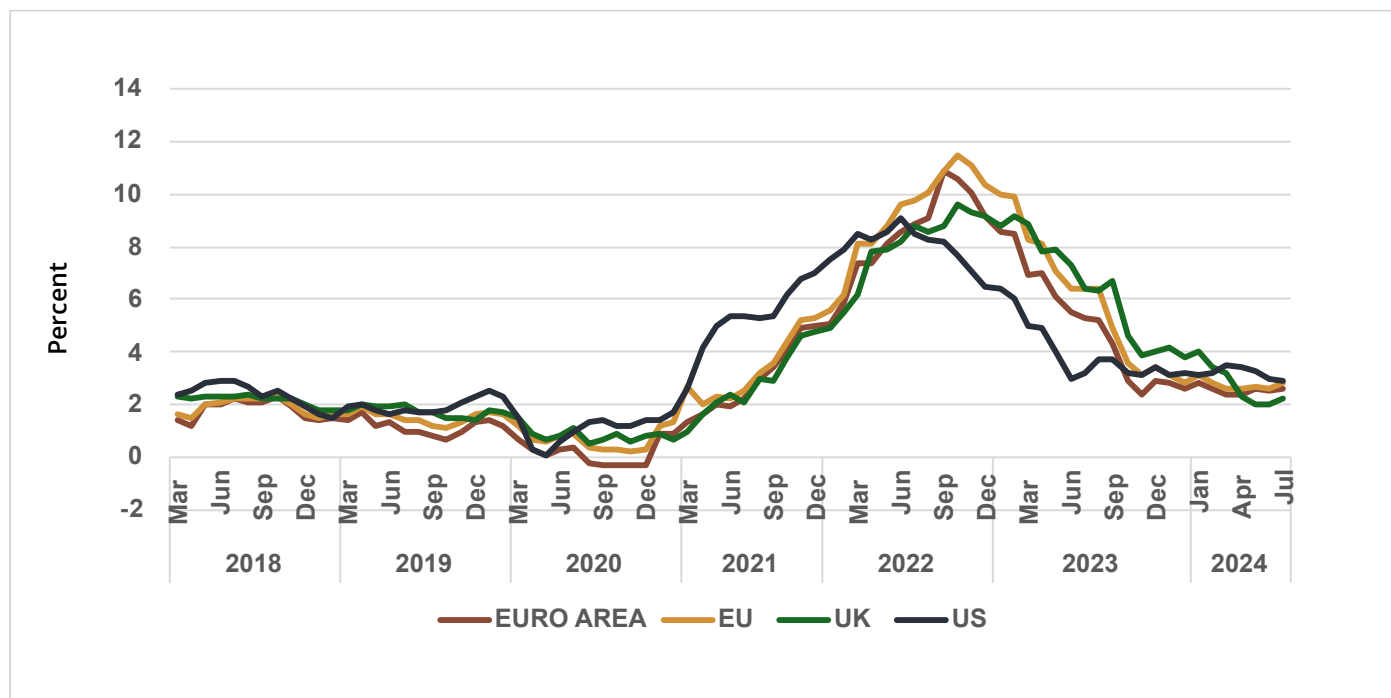
Similarly, the Euro Area and the United Kingdom each reduced their key interest rates by 25 basis points in October 2024 and August 2024, respectively, bringing the rates to 3.65 percent and 5.0 percent. While the moderation in inflation rates among advanced economies is encouraging, the easing of monetary policy is being approached with caution, given that inflation remains outside the targeted ranges.

While financial conditions gradually ease, the IMF notes that risk is building up in the non-bank financial sub-sector as lenders keep elevating credit extension. This concern is compounded by the lack of comprehensive data from the non-banking financial institutions to monitor these risks which present a hindrance to efficient risk identification and mitigation.

Figure 2.1: Advanced Economies Interest Rates



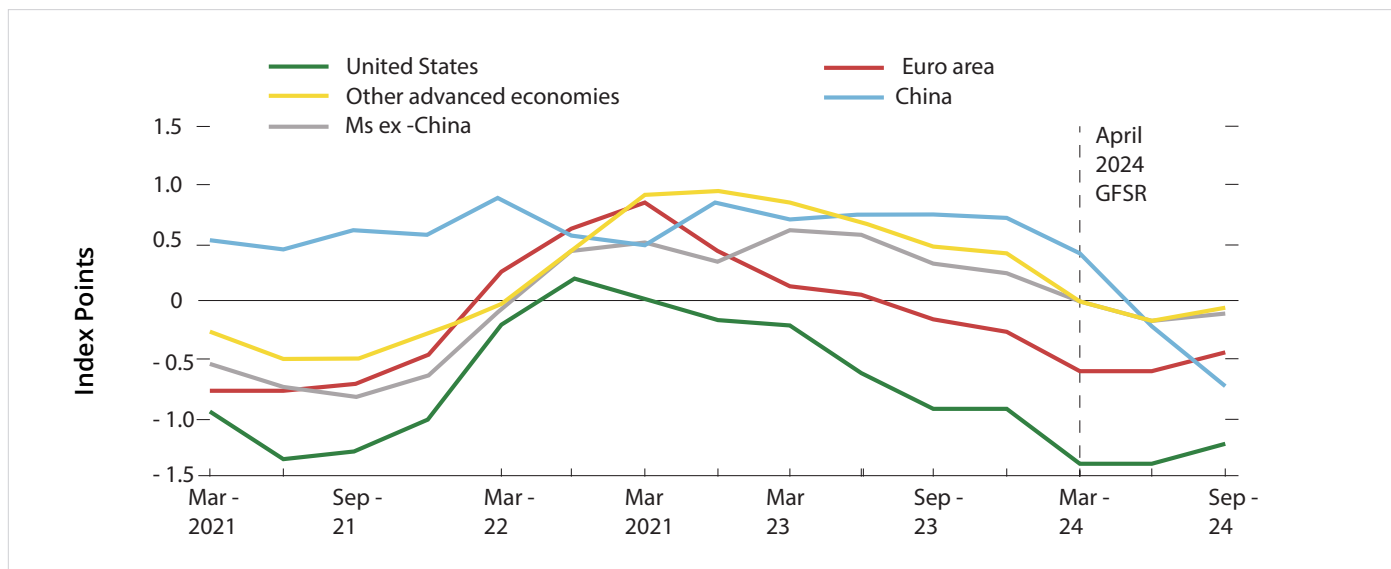
Source: Federal Reserve Bank, Bank of England, European Central Bank

Figure 2.2: Advanced Economies Inflation Rates

Source: Federal Reserve Bank, Bank of England, European Central Bank

According to the IMF's Global Financial Stability Report (October 2024), the financial conditions index indicated that global financial conditions remained accommodative globally. In China, the financial landscape eased driven by accommodative monetary policy, a reduction in corporate credit spreads and a lessening of external pressures. However, indicators based on volume transactions, like credit growth, continue on a downtrend. Notably, inflation in the UK slowed to 2.0 percent in the second quarter of 2024, down from 7.3 percent in the corresponding period

of the previous year. Similarly, the inflation rates in the Euro Area and European Union declined to 2.5 and 2.6 percent, respectively, during the review period. In contrast, the inflation rate in the US remained unchanged at 3.0 percent in the year ending June 2024, the same level observed in June 2023. Despite the slowdown in inflation, there are persistent upside risks to the inflation outlook, primarily stemming from geopolitical tensions in the Middle East, which could lead to increased Brent crude oil prices.

Figure 2.3: IMF Financial Condition Index

Source: Global Financial Stability Report, October 2024

The IMF has noted persistent vulnerabilities in the corporate sector, with debt servicing remaining a challenge for companies despite a generally accommodating financial climate. There has been a visible rise in loan and bond defaults, especially among companies with weaker financial structures. A growing proportion of these firms, particularly SMEs, have cash-to-interest ratios falling below 1.5, signaling potential liquidity constraints. Moreover, the IMF notes that these financially weak institutions are increasing in numbers within the advanced economies. This expansion raises concerns as these firms may face heightened difficulties in managing their debt, particularly under stringent refinancing conditions. The yields required for refinancing have been observed to be significantly higher than the coupons on their existing debt, especially for those debts contracted at historically low fixed rates.

In contrast, corporates with robust financial health have continued to exhibit strong balance sheets, underpinned by considerable cash reserves. This divergence within the corporate sector suggests that a further relaxation of monetary policy could be beneficial, particularly for corporates in emerging markets, by potentially easing the burden of debt sustainability.

In the October 2024 Global Financial Stability Report, the IMF raises concerns about the leverage and interconnectedness of NBFIs with the broader financial markets, highlighting their potential to spread systemic strains and amplify financial stress.

The IMF further identifies limited transparency within the NBFI sector, which hinders the ability of investors and supervisory authorities to accurately assess real time leverage levels and identify potential triggers for stress and deleveraging. This lack of transparency poses significant challenges for effective monitoring and risk management.

The IMF further notes that the pensions and insurance sectors are particularly susceptible to maturity mismatch vulnerabilities due to their predominantly illiquid investments. The flexibility offered by defined-contribution pensions and unit-linked insurance products can exacerbate liquidity mismatches between assets and liabilities, increasing the risk of financial instability.

To address these challenges, the IMF urges enhanced cooperation among supervisory authorities to fill data gaps and improve the monitoring of risks associated with NBFIs. This cooperation is crucial for developing a comprehensive understanding of the sector's vulnerabilities and ensuring effective oversight. The IMF underscores the need for appropriate tools and policies to manage potential turmoil in the NBFI sector. This includes robust surveillance, regulation, and supervision, as well as improved risk management and prudential standards. Additionally, the development of a suitable toolbox for central bank liquidity access, along with appropriate guardrails, is deemed a priority, especially considering tightening monetary policies.

2.2 Regional Financial Stability Developments

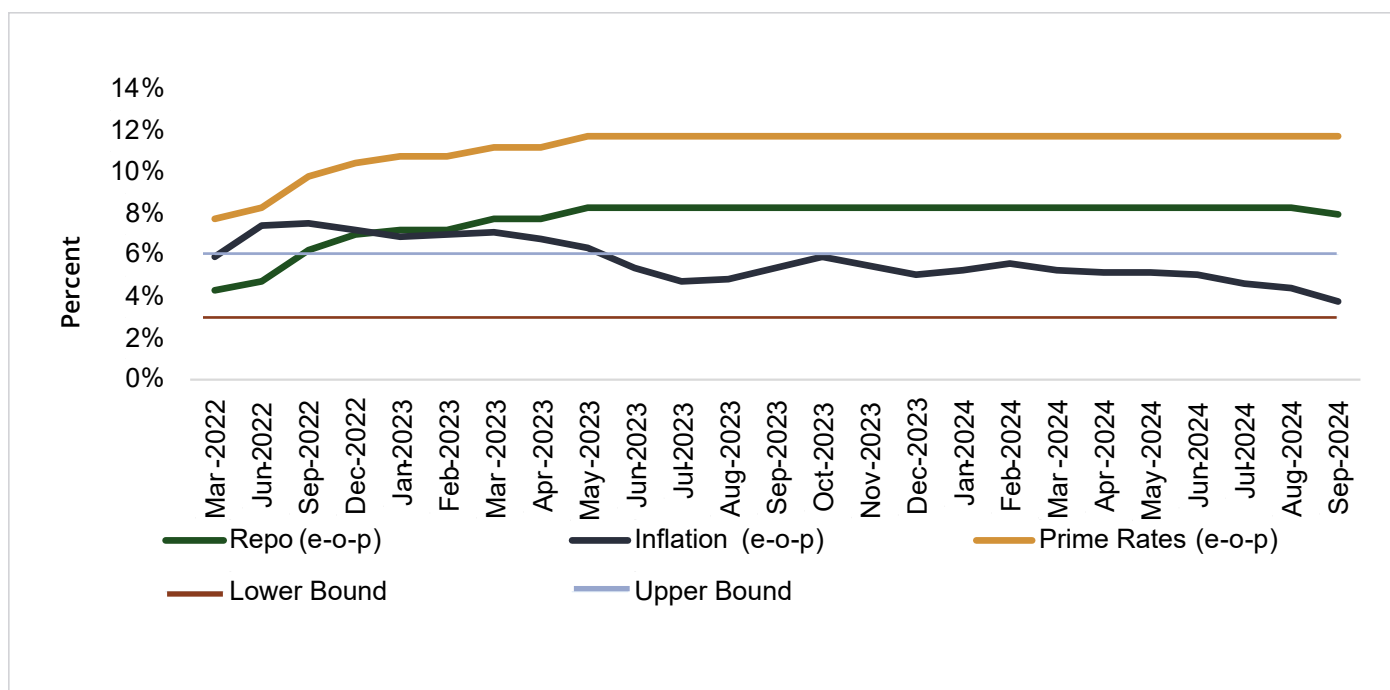
Financial conditions in the Common Monetary Area (CMA) eased over the year ending June 2024. Although interest rates remained relatively high, a decline in inflation contributed to an optimistic outlook regarding medium-term prospects for policy rate adjustments.

Since the last financial stability review, financial conditions in South Africa have shown improvement. The SARB maintained the policy rate at 8.25 percent in the twelve months leading to June 2024. However, in September 2024, the MPC reduced the policy rate by 25 basis points to 8.0 percent.

The decision was influenced by a combination of more favorable global economic conditions, declining food prices, a strengthened exchange rate and lower oil prices. The SARB's rate cut is indicative of a strategic response aimed at aligning domestic monetary policy with improvements in the global economy while ensuring price stability within the country.

In September 2024, headline inflation declined to 3.8 percent, marking a three-year low and positioning it near the midpoint of the target range. This represents a decrease from 5.1 percent recorded in June 2024. The SARB's optimism was realized as expectations placed headline inflation below 4.0 percent in the first half of 2025.

Figure 2.4: South Africa Interest Rates and Inflation



Source: South Africa Reserve Bank (SARB)

Financial stability risks in South Africa remain elevated despite moderation in interest rates and easing inflationary pressures. In its Financial Stability Review (June 2024), the SARB highlighted the continued deterioration of the country's fiscal position, driven by rising public

debt-service costs and expanding stock of sovereign debt exacerbated by the pandemic and inflationary shocks. Higher for longer global interest rates and a growing government debt are expected to keep South Africa's debt-service costs above 20 percent of main budget

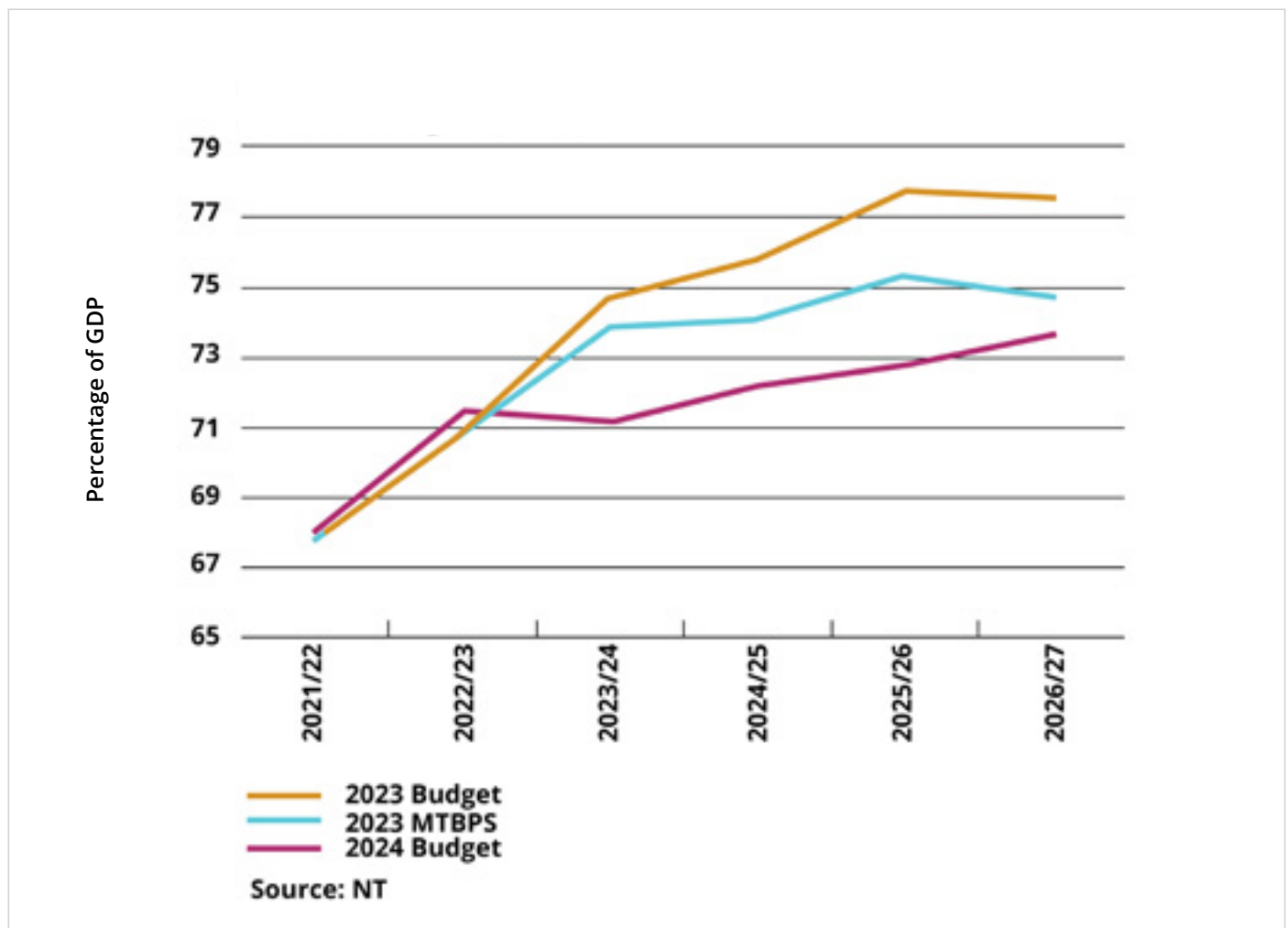
revenue over the medium term, well above its long-term average of 13.0 percent. As of Q1 2024, South Africa's debt-to-GDP ratio stood at 73.7 percent, substantially exceeding the emerging market (EM) average of 58.9 percent, while its interest-to-GDP ratio was recorded at 4.7 percent, compared to the EM average of 3.1 percent (SARB, June 2024).

The government's borrowing requirements have increasingly been financed through the issuance of long-term government bonds, which the domestic financial sector has absorbed in increasing quantities as

non-resident investor holdings have steadily declined in recent years. However, the SARB highlighted that the growing concentration of government bonds within domestic financial institutions could reduce the sector's ability to withstand financial shocks, raising concerns about crowding out and heightened market and repricing risks.

Despite these headwinds, the South African government remains committed to bolstering the domestic economy through structural reforms to support growth capacity, alongside macroeconomic measures designed to rebuild fiscal and monetary buffers.

Figure 2.5: SA Government Debt-to-GDP Ratio Outlook

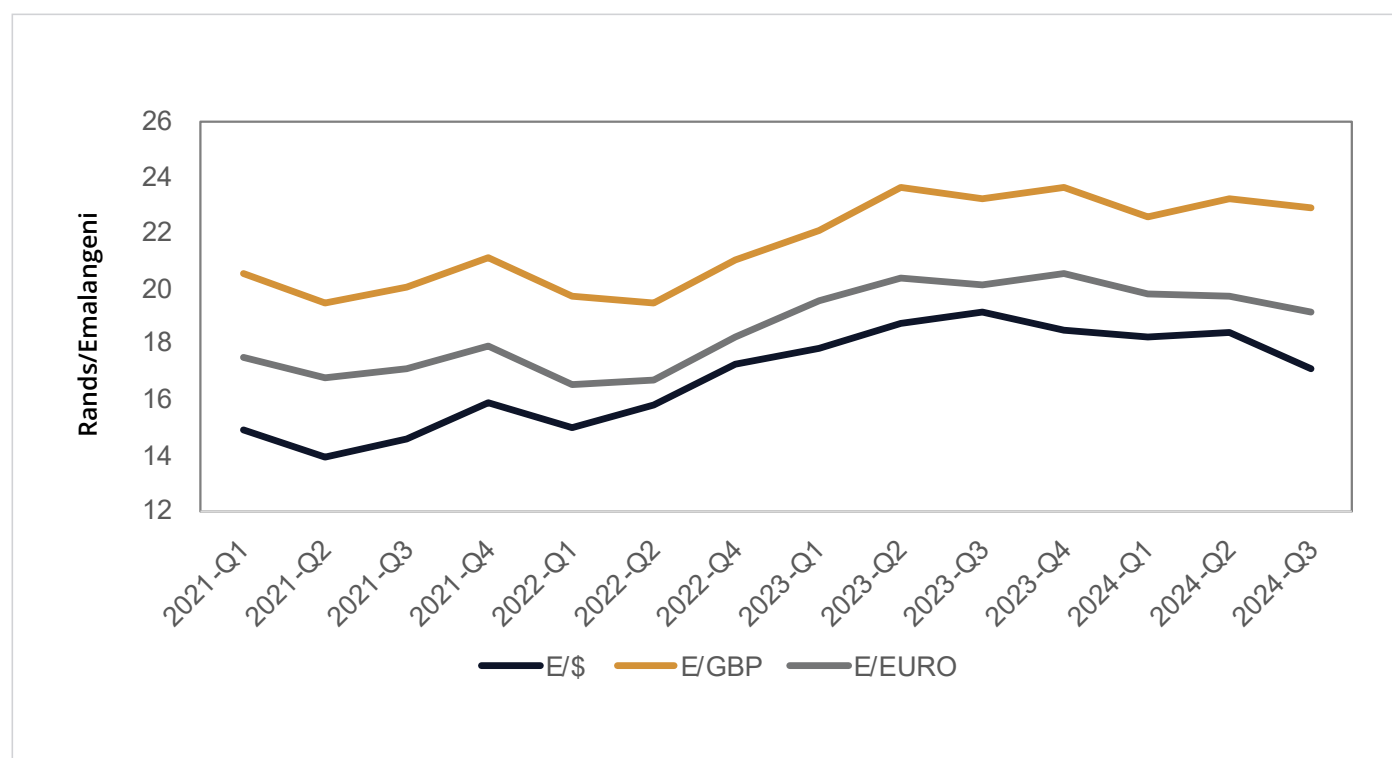


Source: SARB Financial Stability Review, June 2024

The formation of the GNU in South Africa triggered a wave of investor confidence, leading to increased investments across key sectors such as energy and utilities, consumer goods and manufacturing as well as in Government Bonds. The markets reacted positively to the GNU as the local bond market rallied with optimism towards policy continuity and a drop in bond yields.

Additionally, the Rand gained against its major trading currencies, reflecting the market's optimism toward the political developments. By the end of June 2024, the Rand had appreciated to R18.42 against the US Dollar, further strengthening to R17.12 by the end of September 2024.

Figure 2.6: Rand/Lilangeni Exchange Rate



Despite recent improvements in financial conditions, several economic challenges continue to pose risks to South Africa's economic outlook. Notably, SA's unemployment rate remains elevated, standing at 33.5 percent in June 2024, up from 32.6 percent in June 2023. This increase was primarily driven by employment losses in the formal, agricultural and private household sectors. Additionally, persistent social ills, including poverty and crime, threaten the sustainability of renewed optimism surrounding South Africa's governance efforts.

Another significant concern is South Africa's position on the Financial Action Task Force's (FAFT) grey list, with 17 action items that must be addressed by 2025. To date, South Africa has only partly addressed 14 of these items. Failure to meet the remaining requirements within the stipulated timeframe could hinder South Africa's ability to conduct business globally as increased scrutiny may deter international partners. The consequences could extend to reputational damage, capital outflows driven by discouraged foreign investors and heightened compliance burdens.

2.3 Summary of risks from the global economy

While risks from the external economic environment have eased somewhat, they remain elevated due to the persistently tight financial conditions impacting South Africa.

Weak Fiscal Position and the Sovereign-Financial

sector nexus – South Africa's fiscal position remains weak as demonstrated by its high and rising debt-to-GDP ratio. This has highlighted the urgent need for fiscal reforms to unlock the country's economic potential, which could in turn uplift the broader region.

Prolonged and intensifying geopolitical tensions

– Geopolitical tensions continue to pose risks by potentially altering trade and financial flows, as well as causing volatility in import and export prices. These prolonged tensions also heighten the likelihood of disrupting supply chain and international transport systems.

Tight Financial conditions – Although central banks have slowed the pace of interest rate hikes, financial conditions remain relatively tight. A prolonged period of high interest rates may exacerbate capital outflows from EMDEs, further constraining sovereign borrowing.

South Africa Remaining on the FATF grey list

beyond June 2025 – Following South Africa's grey listing by the FATF, a jointly agreed-upon Action Plan between South Africa and the FATF was adopted.

Key risks include challenges related to insufficient electricity, rising public debt and political uncertainties:

The extended grey listing means that financial transactions with South Africa are still subject to heightened scrutiny, resulting in higher processing, monitoring, and reporting requirements. This situation may have ripple effects for Eswatini, given its economic ties with South Africa, and could also reduce South Africa's attractiveness as an investment destination in the long term.

NBFI sector – Risks from the NBFIs are centered around the vulnerabilities and potential risks they pose to global financial stability. These vulnerabilities arise from elevated leverage, liquidity mismatches and high levels of interconnectedness. There is a need to enhance regulation and supervisory engagement to address issues affecting NBFIs, which include entities like pension funds, insurance companies and hedge funds. The enhanced regulation and supervisory engagements could include implementing standards and strengthening macro-prudential policy frameworks to contain excessive risk taking in the NBFIs, crafting tools to manage the financial stability consequences of NFBI stress.

3

DOMESTIC FINANCIAL STABILITY DEVELOPMENTS

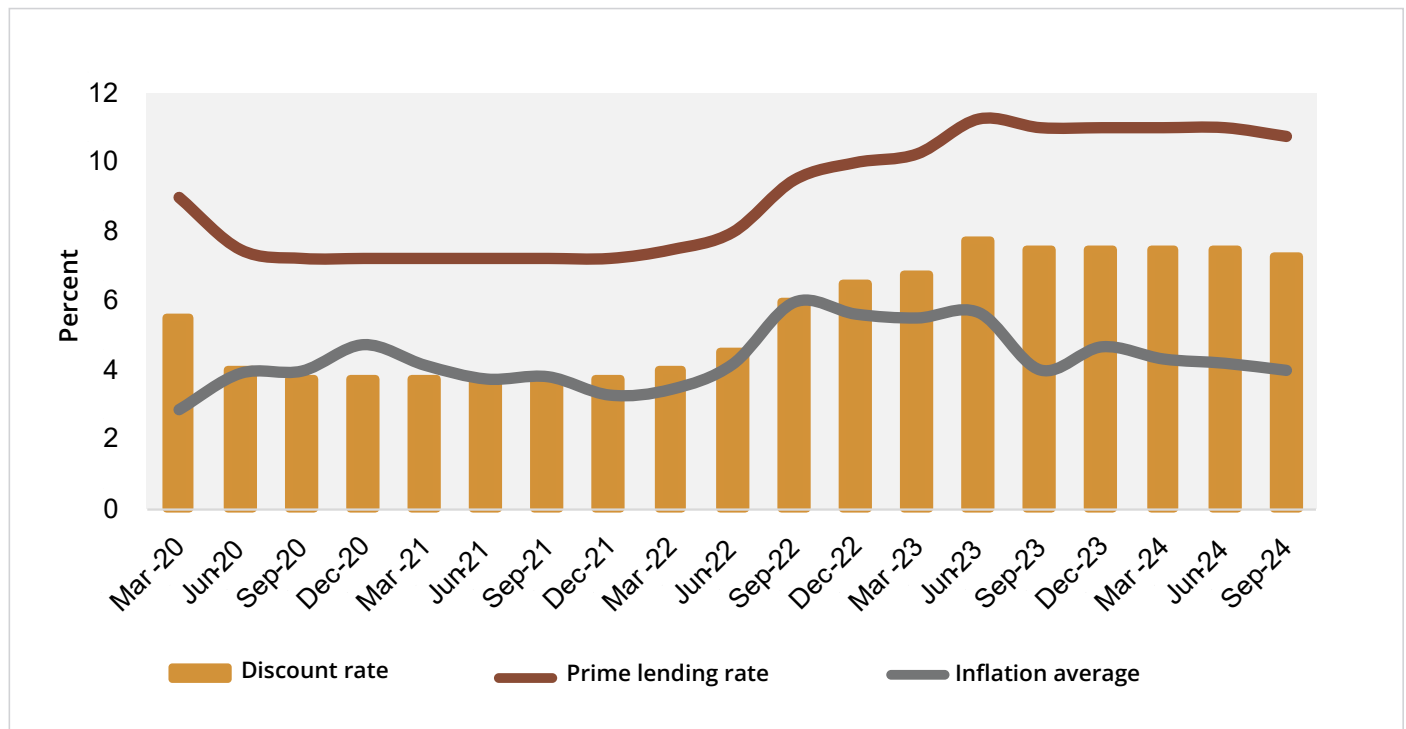
3.1 Eswatini Financial Conditions

Financial conditions in Eswatini have shown signs of modest easing over the 12 months leading to June 2024. By June 2024, the Central Bank of Eswatini had maintained the discount rate at 7.5 percent, a position held since July 2023. This represents a slight decrease from the 7.75 percent observed in June 2023.

Inflationary pressures have moderated, with the inflation rate averaging 4.2 percent in the twelve months ending June 2024, down from an average of 5.7 percent recorded in the period ending June 2023.

The inflation outlook remains positive, as the CBE, during its September 2024 MPCC meeting, revised its headline inflation forecast downward to 4.2 percent for 2024 and 4.9 percent for 2025 and 4.8 percent for 2026. Nevertheless, risks to the inflation outlook persist, driven by ongoing geopolitical conflicts in the Middle East, volatile exchange rates fluctuations, and the potential impacts of expected extreme weather conditions. In response to the continued moderation in consumer prices, the Central Bank implemented a 25-basis points reduction in the discount rate in September 2024. This adjustment reflects the CBE's ongoing efforts to manage inflationary pressures while navigating external economic uncertainties.

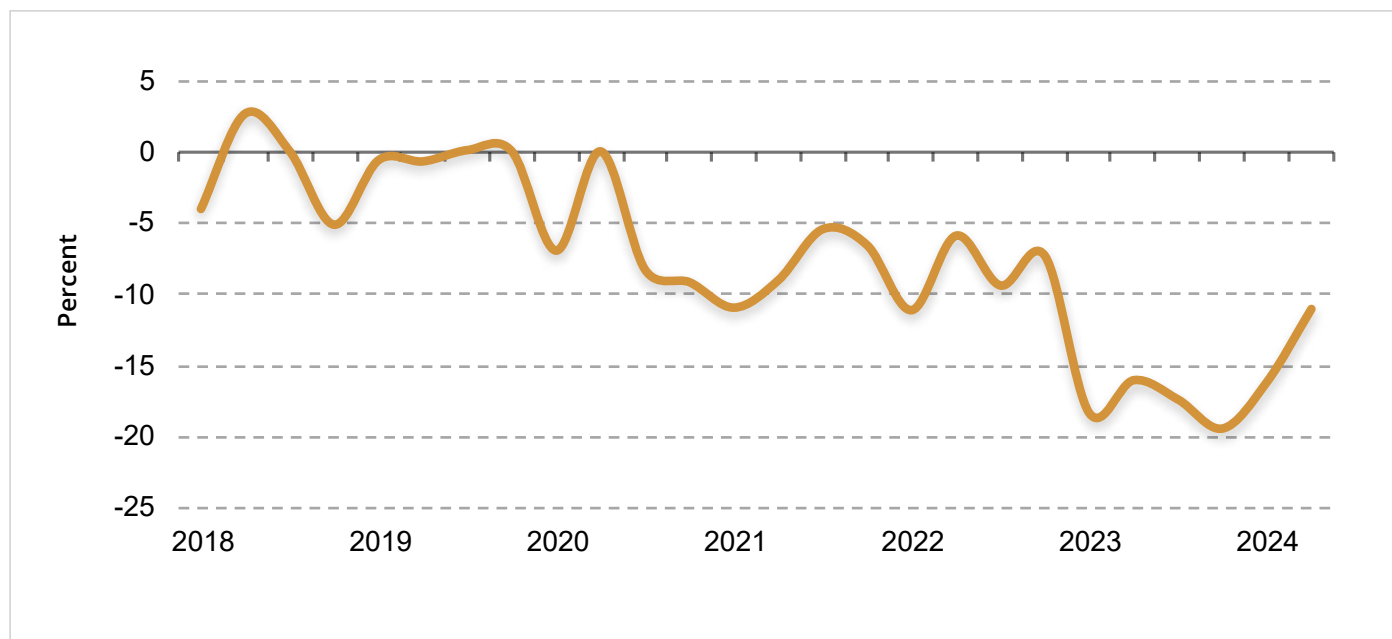
Figure 3.1: Discount Rate, Inflation and Prime Lending Rate



Source: Central Bank of Eswatini

The improvement in the domestic financial conditions is reflected in the narrowing of the credit-to-GDP gap in June 2024. As of June 2024, the credit-to-GDP gap had narrowed to -11.04 percent, compared to -16.03 percent in June 2023. This contraction indicates a decrease in default risk and

suggests that the fiscal position is in a stronger position to meet its debt obligations. Furthermore, the smaller gap reflects a closer alignment of credit levels with the economy's long-term sustainable trend, thereby reducing the likelihood of financial instability.

Figure 3.2: Credit-to-GDP Gap

Source: Central Bank of Eswatini

3.2 Fiscal Sector

The fiscal sector demonstrated a significant improvement in the first 3 months of the fiscal year 2024/25 ending June 2024, with government revenues increasing by 10 percent, reaching E6.458 billion, up from E5.890 billion in the corresponding period of the 2023/24 fiscal year. This revenue growth was largely driven by higher receipts from SACU receipts, Value Added Tax (VAT) and pay as you Earn (PAYE). SACU revenues surged by 27.0 percent in June 2024, while VAT and PAYE grew by 2.1 and 4.9 percent, respectively, during the same period.

On public finances, the Government established a Revenue Stabilization Fund and has committed to fund it in equal quarterly instalments upon receipt of SACU revenue. This proactive measure will be instrumental in mitigating the impact of potential future declines in SACU receipts. Additionally, it will contribute in boosting the level of reserves. As at end of October 2024, the total fund balance stood at E2.1 billion.

Government expenditure stood at E4.160 billion in the quarter ended June 2024, down from E5.077 billion in June 2023. This reduction was primarily due to a decline in both internal and external transfers.

On the contrary, notable increases were recorded in key expenditure categories such as 'compensation of employees', 'capital expenditures', and 'goods and services'. Consequently, the fiscal accounts posted a surplus of E2.2 billion during the period under review.

Despite these positive fiscal trends, the sector continues to face challenges in cash flow constraints which perpetuate the accumulation of domestic arrears and impede service delivery, particularly within the health and education sectors. The inability to adequately provide these essential services poses risks to the financial health of various sectors, particularly households. If left unaddressed, these weaknesses could negatively impact the broader financial sector, potentially compromising its stability.

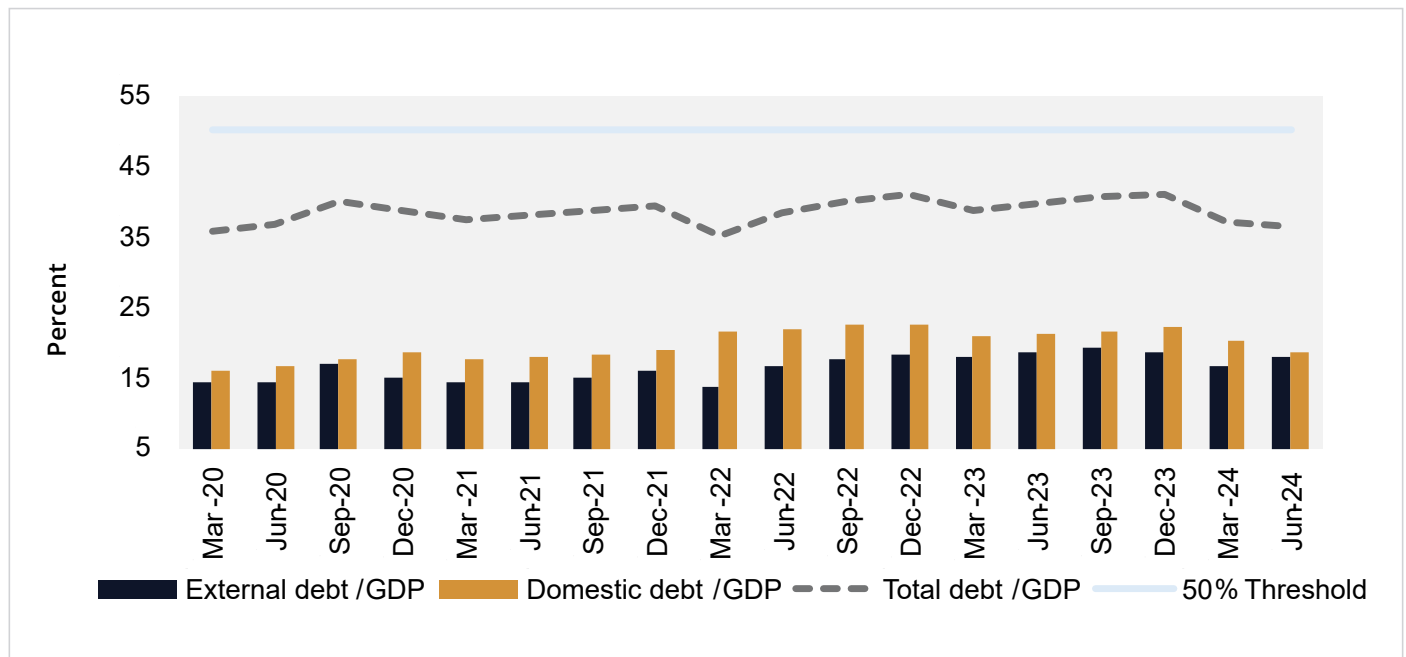
Regarding debt developments, the public debt burden improved slightly in the period under review. The total public debt-to-GDP ratio fell to 36.1 percent in June 2024, down from 39.8 percent recorded in June 2023. This moderation in public debt was primarily driven by higher SACU inflows received in the 2023/24 financial year. As of June 2024, the total debt-to-GDP ratio moved further away from the 50 percent threshold. External public debt as percentage of GDP stood at 15.2 percent in June 2024, a slight decrease from 15.9 percent in June 2023.

Meanwhile, domestic debt-to-GDP increased marginally, rising to 18.2 percent in June 2024 from 17.9 percent in June 2023. The overall improvement in debt conditions can largely be attributed to favorable exchange rates movements during the review period.

Notably, domestic public debt exceeds external debt, which has positive implications for managing exchange

rate risks. However, risks to public debt growth remain skewed to the upside, as the Government's infrastructure development plans, which require external financing, may elevate external debt levels. The analysis also highlights that external debt is rapidly approaching the same level as domestic debt.

Figure 3.3: Public Debt/GDP Ratios



Source: Central Bank of Eswatini

Sovereign- Bank Nexus in Eswatini

The Financial Stability Unit's research paper, "The Sovereign-Bank Nexus in Eswatini," presents a comprehensive analysis of the complex interdependencies between Eswatini's banking sector and sovereign debt. The study was driven by the increasing levels of public debt and the significant role domestic banks play in holding government debt, which can lead to a "feedback loop" where risks in one sector amplify vulnerabilities in the other. The study employed the Autoregressive Distributed Lag (ARDL) model to analyze the long- and short-term effects of sovereign debt on Eswatini's financial stability through three primary indicators: Capital Adequacy Ratio (CAR), liquidity, and profitability.

Key Findings

Interest Rates Impact on Financial Stability:

The study revealed that higher interest rates positively influence CAR, as banks benefit from higher income on lending and investments. However, in times of high sovereign debt exposure, this effect can be limited by the banks' reliance on government bonds, which may not be as profitable during periods of economic stress.

Inflation's Effect on Stability: Inflation generally strengthens CAR by increasing asset values. However, excessive inflation can devalue real earnings, potentially heightening credit risk for banks as borrower repayment capacity is reduced. Thus, while nominal earnings growth supports asset values, the relationship is complex and can shift depending on inflation's severity.

Public Debt and Banking Sector Risks:

A major finding was that an elevated domestic debt-to-GDP ratio negatively impacts CAR and liquidity, exposing banks to increased credit and interest rate risks. High public debt forces banks to concentrate on government securities, which can become liabilities if sovereign risks escalate, especially if market volatility prompts a decline in government bond values.

COVID-19 and Recent Geopolitical Effects:

The COVID-19 pandemic and global geopolitical tensions exacerbated the sovereign-bank nexus by causing increased public debt, which Eswatini's banks absorbed significantly. With domestic banks now heavily exposed to government debt, they face liquidity risks if a sudden demand for liquidity occurs and government debt holdings cannot be quickly liquidated without losses.

Methodology

The study utilized quarterly data from 2014 to 2023 and applied the ARDL model due to its suitability for capturing the dynamics of both short and long-term relationships within datasets that may have mixed levels of integration. Key variables include inflation rate, interest rates, public debt ratios, and exchange rate volatility, all of which serve to evaluate the CAR, liquidity, and profitability of Eswatini's banking sector.

Policy Recommendations

To mitigate risks in the sovereign-bank nexus, the study recommends:

Institutional Reforms: Enhancing fiscal discipline through budget controls, revenue mobilization, and debt management strategies to prevent the crowding out of private sector credit and to build buffers against sovereign debt pressures.

Stricter Supervision and Prudential Monitoring: The regulatory approach should prioritize risk-based regulation, with frequent stress tests on banks' sovereign debt exposure to assess vulnerabilities and enforce liquidity requirements.

Diversifying Sovereign Exposure: Reducing banks' dependency on government debt and encouraging diversified asset portfolios can help mitigate risks associated with government defaults.

Government Support and Moral Hazard: Eswatini's government should establish clear guidelines for government support during crises to reduce moral hazard and the assumption of government bailouts by banks.

Conclusion

The study concluded that Eswatini's financial system exhibits a strong sovereign-bank nexus, with public debt playing a crucial role in shaping the banking sector's stability. Managing this nexus effectively is essential for financial stability, as continued reliance on government bonds could exacerbate systemic risks. Ensuring prudent fiscal and banking sector policies, alongside robust supervisory practices, is crucial for safeguarding Eswatini's financial stability.

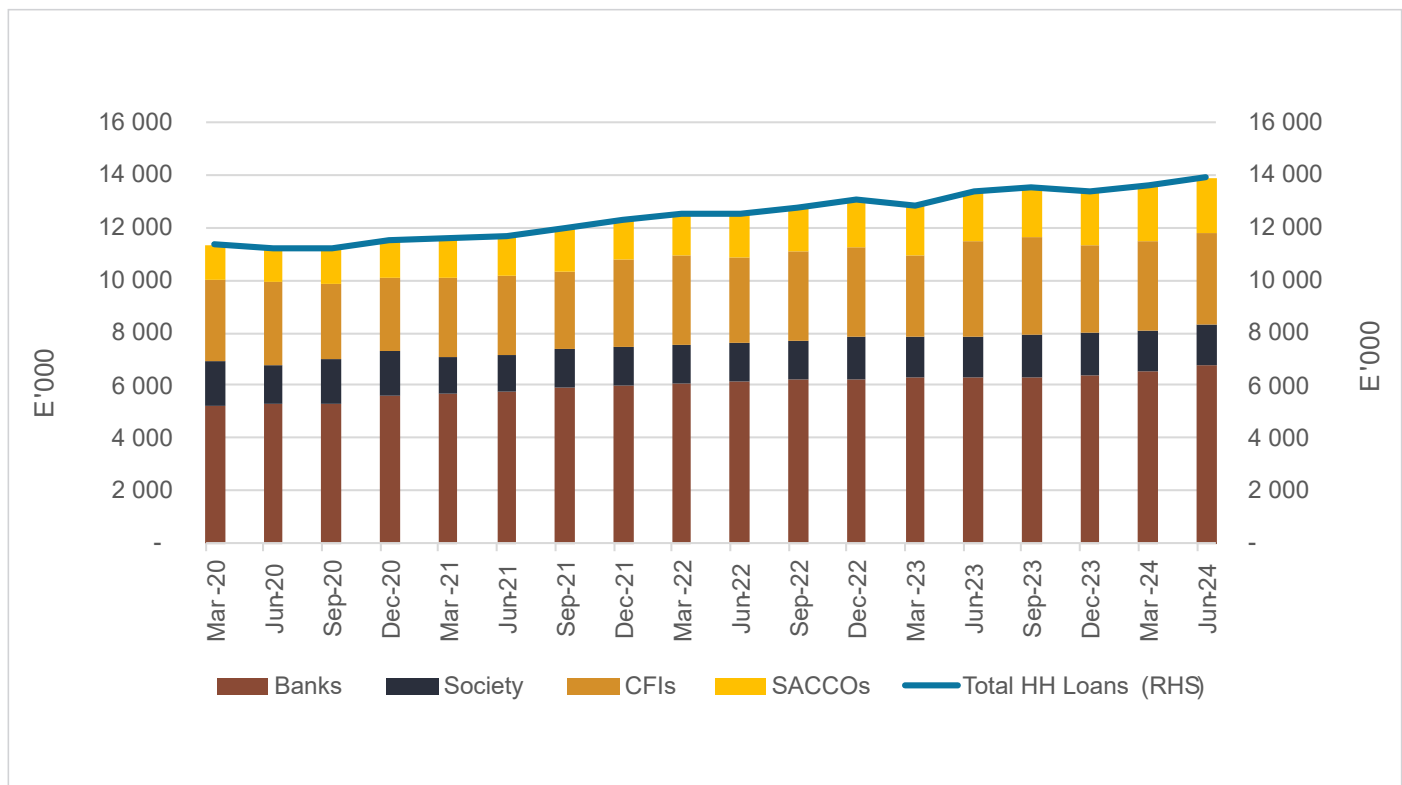
4

HOUSEHOLD SECTOR

Risks from the household sector have moderated, signaling some relief in financial pressures. However, significant concerns remain due to lenders' substantial exposure to unsecured household loans, which remains a key risk. A considerable portion of household credit remains unsecured, in both banking and NBFIs subsectors. These conditions threaten the household sector's ability to manage and service debt, potentially leading to asset quality deterioration for lenders.

As of June 2024, NBFIs accounted for 51.6 percent of the total household credit portfolio, representing E7.16 billion. This marks a decrease from the 53.1 percent share recorded in the previous year. Within the NBFI sector, CFIs accounted for 47.6 percent of the credit, while SACCOs contributed 15.4 percent during the same period.

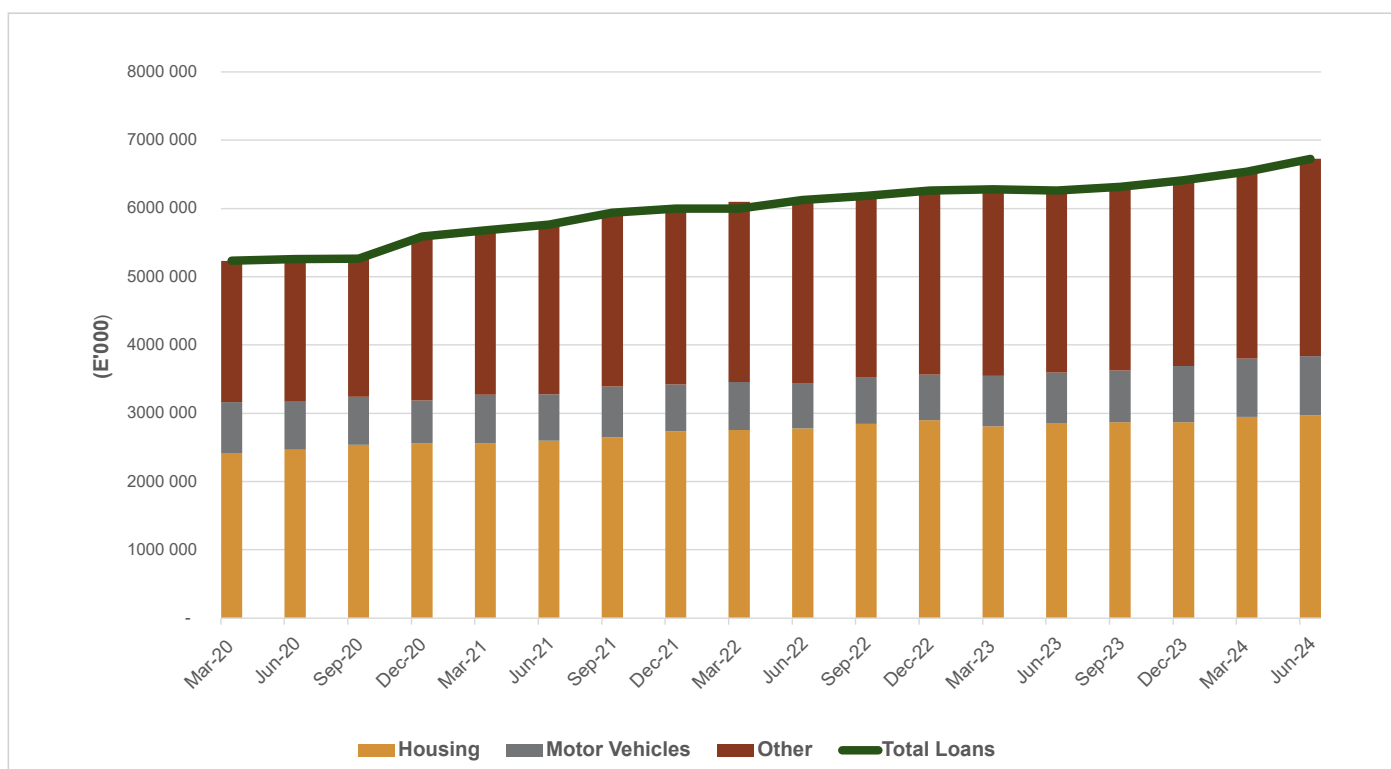
Figure 4.1: Loans by Industry



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

Banks extended a total of E6.73 billion in credit to households in the period under review, reflecting a year-on-year growth of 7.4 percent. Mortgages continued to dominate the credit portfolio, comprising 44.2 percent of total household credit, while unsecured credit accounted for 43.0 percent. The prevalence of unsecured lending warrants close monitoring, given its heightened sensitivity

to interest rates fluctuations and changes in disposable income. Despite the inherent risks, the performance of unsecured loans has shown notable resilience. The NPL ratio for unsecured loans improved to 4.4 percent in June 2024, down from 5.0 percent in June 2023, indicating a better performance than other credit product lines.

Figure 4.2: Credit to Households - Commercial Banks

Source: Central Bank of Eswatini

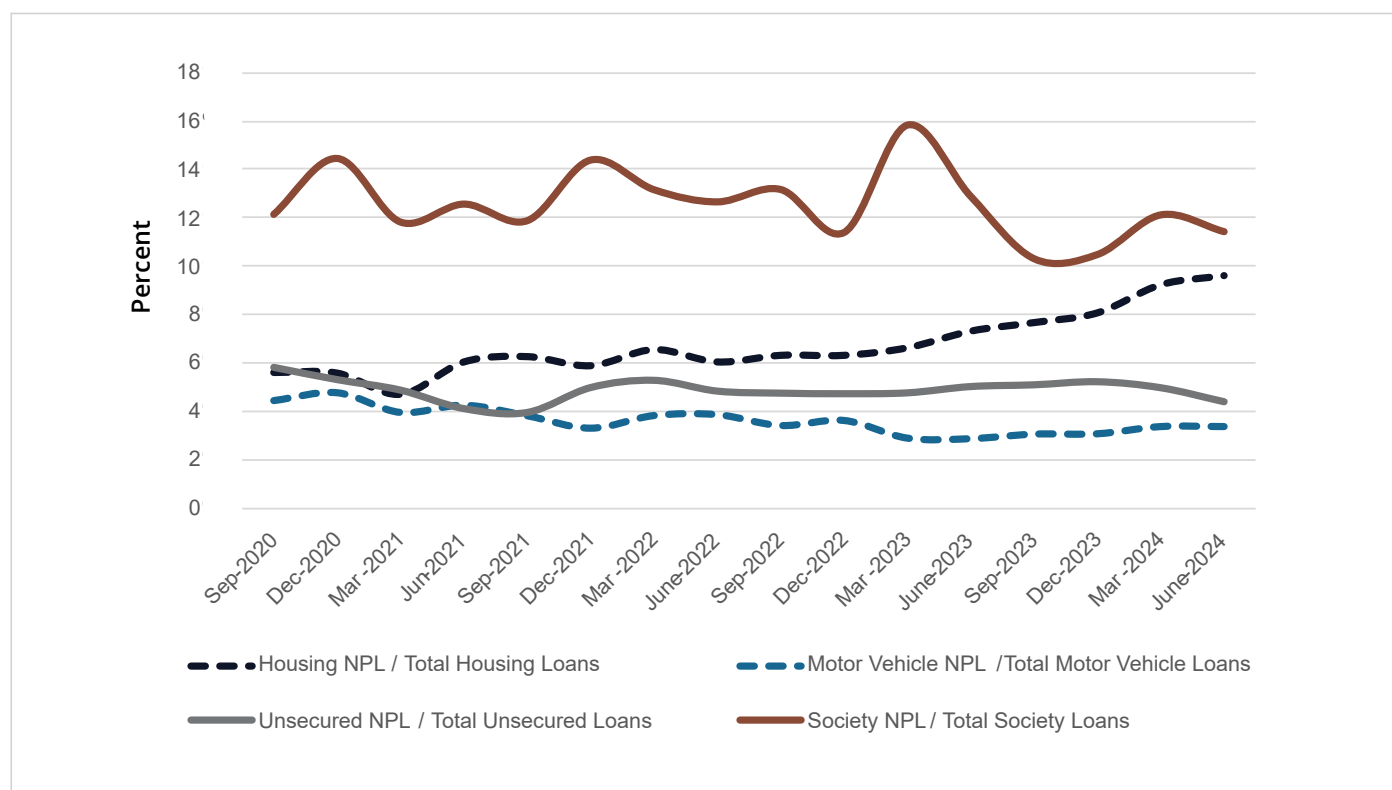
Mortgage lending by the banks and the building society increased to E4.0 billion in June 2024, up from E3.8 billion recorded in the year ending June 2023. Despite this growth, the mortgage portfolio continues to be the weakest performing segment within the household loan portfolio. The NPLs ratio for the mortgage rose to 9.6 percent in June 2024, compared to 7.3 percent in June 2023. This trend suggests that, despite relatively favourable financial conditions, households with access to mortgage products remain financially strained.

The CBE has also observed a notable increase in residential real estate development on Swazi Nation Land (SNL), driven by the expansion of rural loan facilities offered by banks.

Rural loans grew by 4.2 percent in June 2024, a significant increase from the 1.4 percent growth rate recorded in the previous year.

While rural housing loans secured by pension provide much-needed access to housing finance, they also introduce a new set of financial stability risks. Managing these risks requires careful regulation, adequate risk assessment by the lenders, and ensuring that borrowers are not overexposed to debt that could threaten both their short-term financial health and long-term retirement security. Lenders must monitor the growth of this portfolio and ensure that appropriate safeguards are in place.

Figure 4.3: Household NPLs



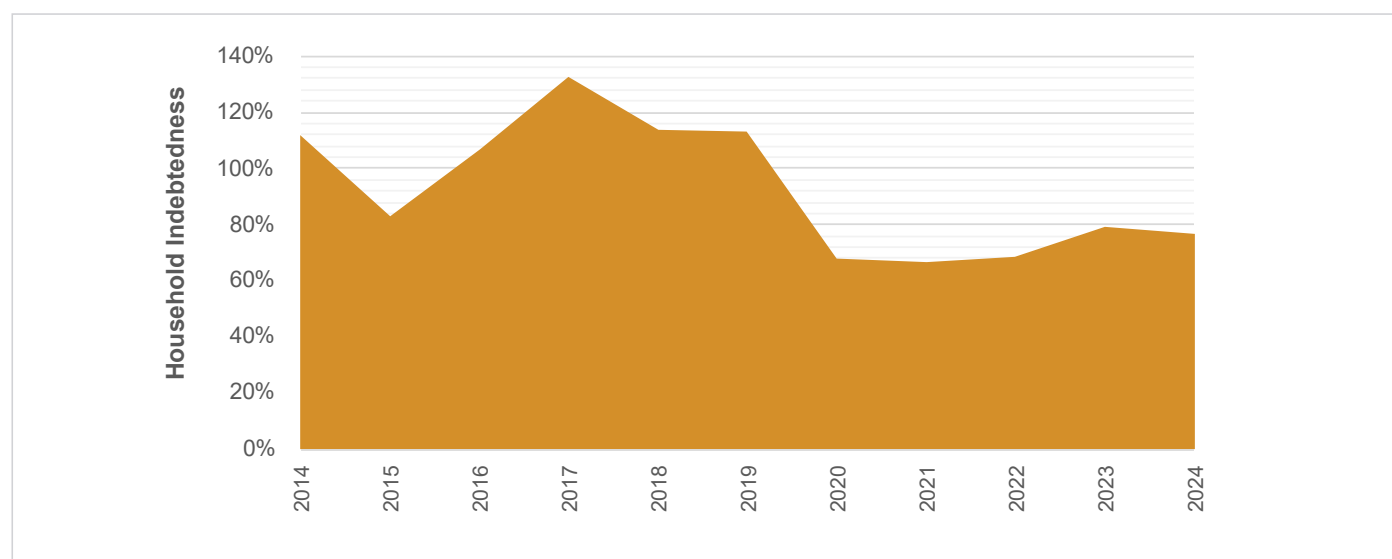
Source: Central Bank of Eswatini

Household Indebtedness

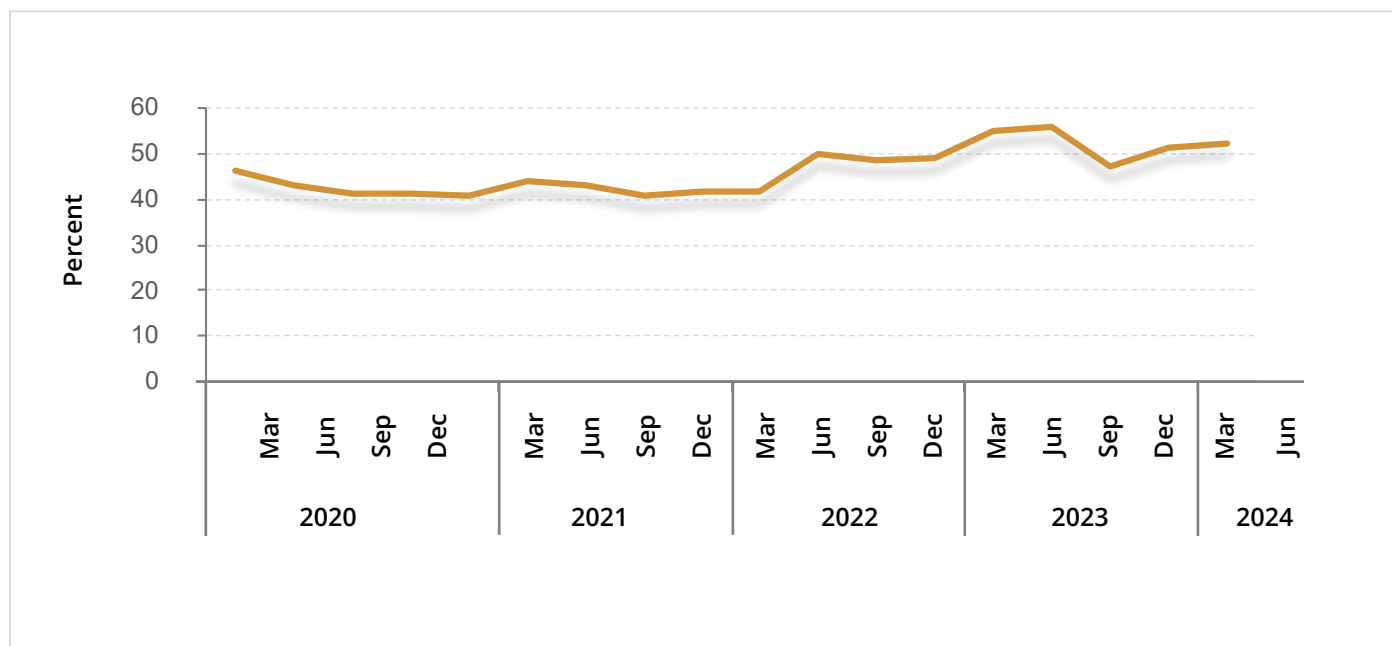
As of June 2024, the level of household indebtedness decreased to 76.8 percent, down from 79.0 percent noted in the previous assessment. This improvement is largely attributed to an increase in household income, reflected in a higher disposable income to GDP ratio. Specifically, the disposable income-to-GDP ratio improved to 23.8 percent during the review period, compared to 21.6 percent

recorded in June 2023. Additionally, household credit as a proportion of GDP has decreased, falling from 15.9 percent in 2023 to 15.0 percent in 2024. The household debt-service ratio also saw a marginal improvement, closing at 54.8 percent in June 2024, compared to 55.1 percent in the corresponding period of the previous year.

Figure 4.4: Household Indebtedness



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

Figure 4.5: Debt Service Ratio

Source: Central Bank of Eswatini, Financial Services Regulatory Authority

In the last financial stability assessment, it was noted that households had remained under significant financial strain. Despite improvements in certain metrics. Although household assets have continued to grow, the pace of this growth has decelerated. Specifically, household assets increased by 3.1 percent over the year ending June 2024, a marked deceleration compared to the robust 12.5 percent growth observed in the year ending June 2023 (figure 4.6a).

On the liabilities front, although household liabilities have followed a long-term upward trend, the growth rate has similarly decelerated. Household liabilities grew by 4 percent in the year ending June 2024, down from 7 percent in the

previous period (figure 4.6b). Despite this slowdown, households remain net savers, as indicated by the continued positive trend in the wealth-to-income ratio.

The wealth-to-income ratio is a crucial metric that reflects the relationship between a household's accumulated wealth and its income. While a higher ratio often correlates with a lower savings rate, it also suggests that households may increasingly rely on their accumulated wealth to support spending, potentially limiting their ability to absorb economic shocks. This raises concerns about emerging vulnerabilities that undermine household financial resilience.

Figure 4.6: Household Wealth

Figure 4.6a: Household Asset Breakdown

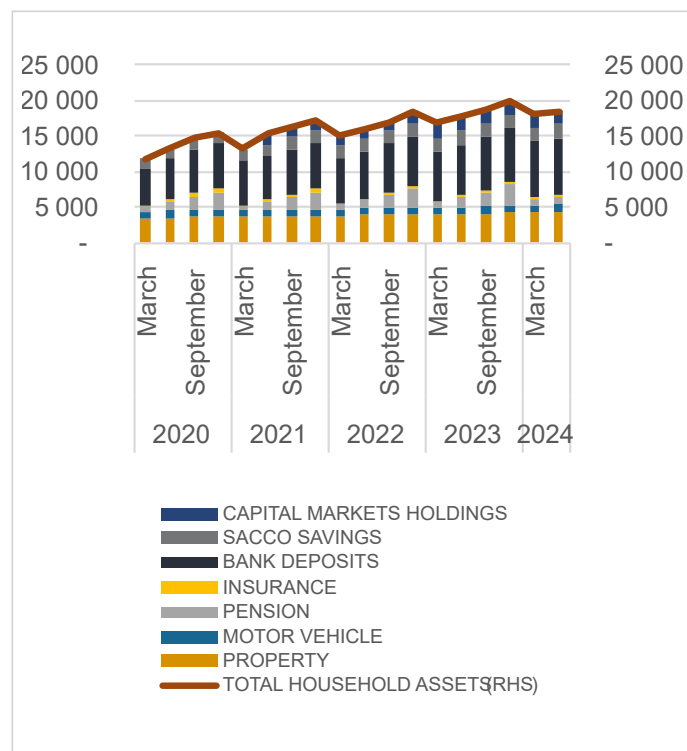


Figure 4.6b: Household Liabilities Breakdown

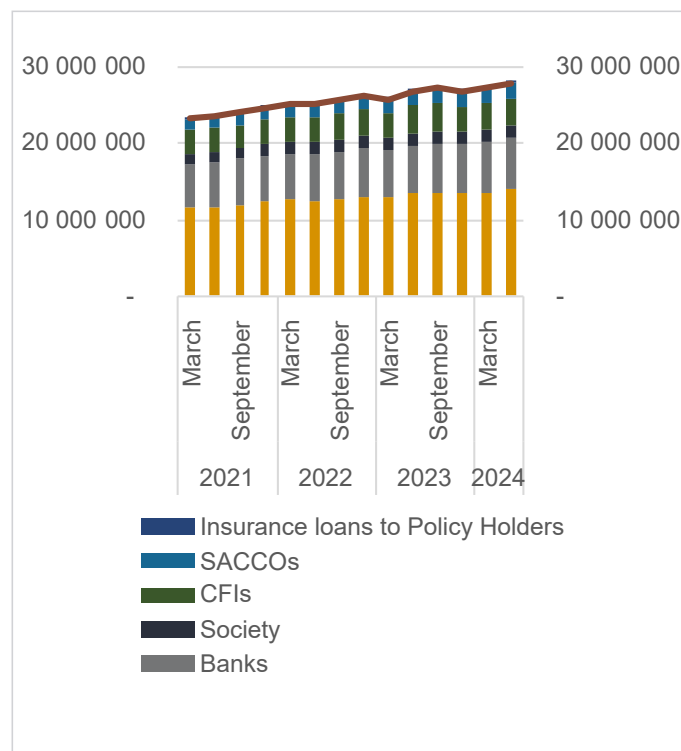
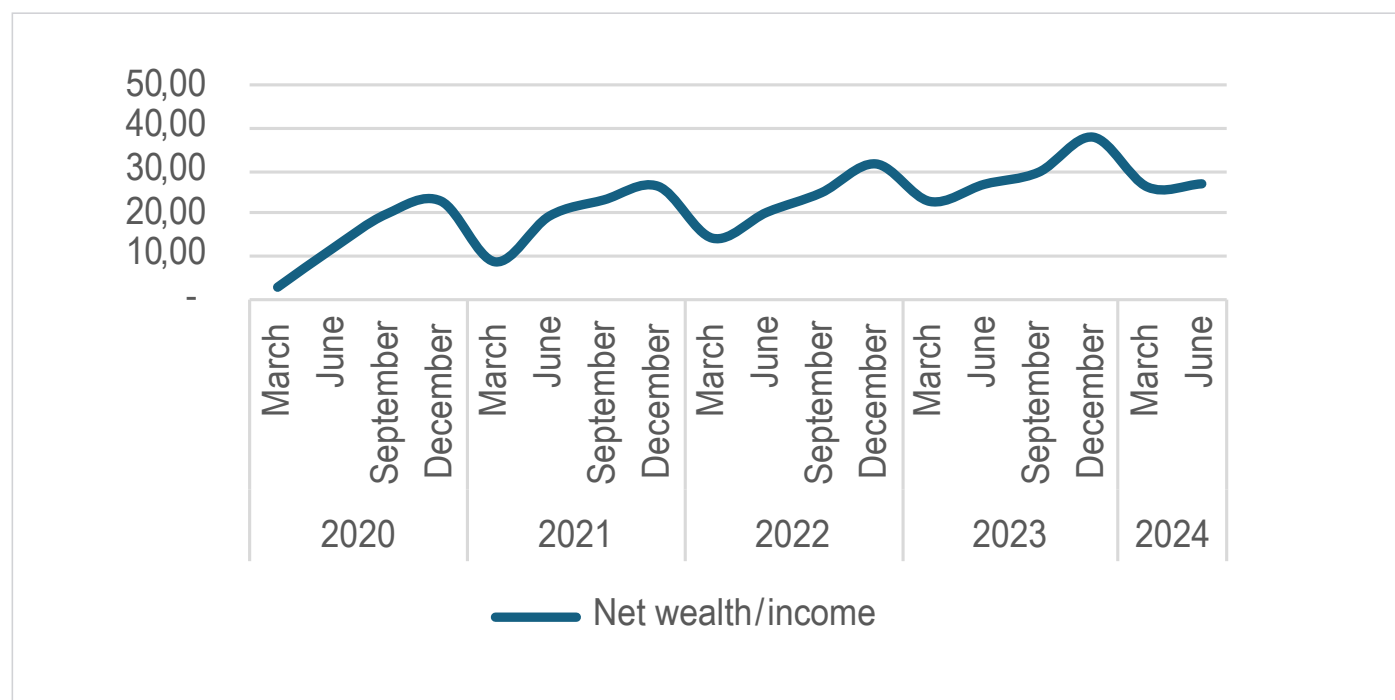


Figure 4.6c: Household Liabilities Breakdown



Sources: Central Bank of Eswatini, Financial Services Revenue Authority

Notes:

1. Analysis is limited to households whose wealth is directly exposed to the financial system. This implies that the property valued here excludes property that has been paid off and is no longer in the financial system.

5

CORPORATE SECTOR

As of June 2024, the corporate sector exhibited signs of heightened financial distress, evidenced by rising leverage ratios and a notable downturn in profitability. The period closed with a substantial loss of E20.4 billion, a stark

increase from the E1.3 billion recorded in the preceding year. Both large corporations and SMEs experienced this profitability downturn, SMEs recording losses for the second consecutive year, indicating sustained financial strain.

5.1 Small and Medium Enterprises

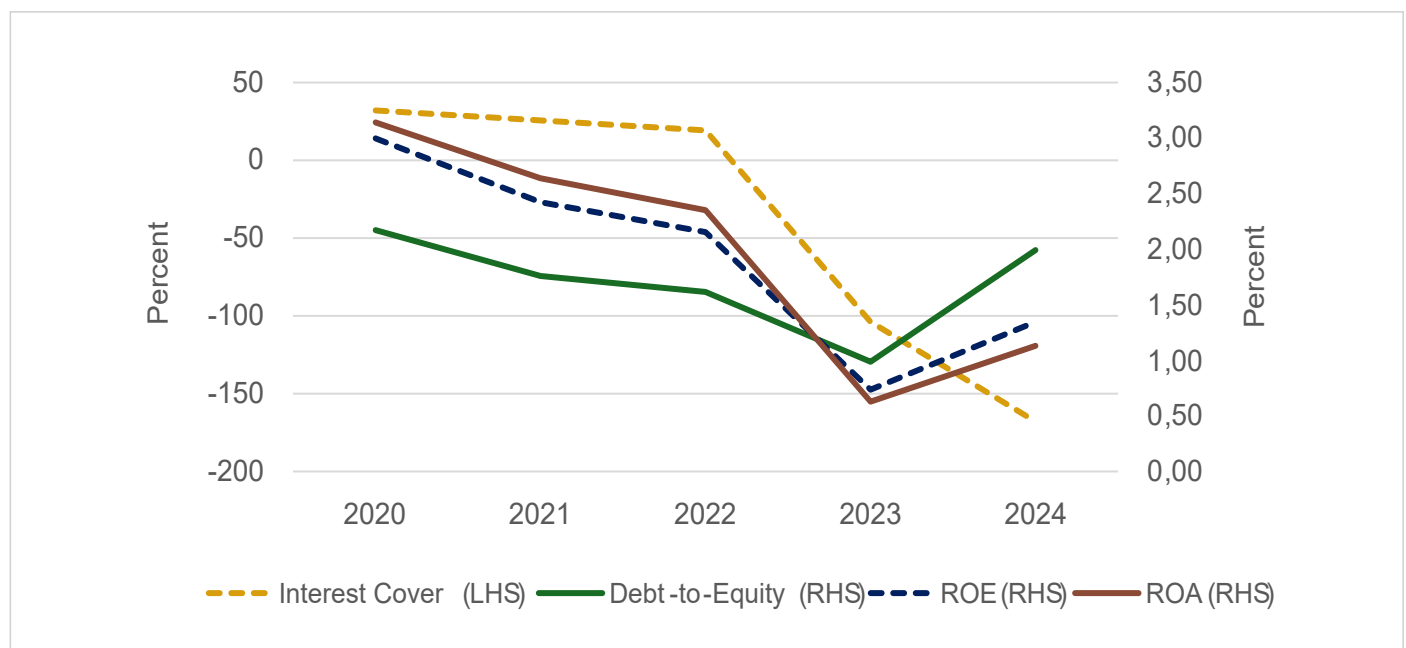
The SME sector faced significant headwinds in 2024, reporting a loss of E23.3 billion, a significant deterioration from the E12.7 billion loss recorded at the close of the previous year. Although there was an uptick in revenue, it was overshadowed by operating expenses that nearly doubled. Losses in the construction industry within the SME sector were particularly pronounced, being the only industry to report losses during the review period.

The sector's debt-to-equity ratio surged from 1.0 percent to 2.0 percent, indicating an increasing reliance on debt financing among SMEs. If this trend persists, it could exacerbate financial vulnerabilities, particularly if income generation does not improve meaningfully. The elevated debt levels may constrain SME's capacity to invest in expansion and innovation, potentially entrenching a cycle of diminished profitability across the sector.

Furthermore, the interest coverage ratio, which measures the ability of SMEs to meet the interest obligations, deteriorated sharply from -103.6 percent previously to -167.7 percent in the current period. The negative ratio indicates that the sector's earnings are likely insufficient to cover interest expenses, raising the risk of credit defaults. Such defaults could reverberate across the financial system, leading to potential losses for banks and other lending institutions.

Key performance indicators in the SME sector witnessed a downturn, with ROE falling from -0.2 percent in June 2023 to -0.7 percent in June 2024 and the ROA declined from -0.1 percent to -0.2 percent over the same period. This negative trend weighs negatively on the sector's creditworthiness, leading to a deterioration in SMEs risk profiles. As a result, borrowing costs may rise as lenders adjust for increased risk, potentially applying higher interest rates to safeguard against default.

Figure 5.1: SMME Financial Soundness Indicators



Source: Eswatini Revenue Services and Central Bank of Eswatini

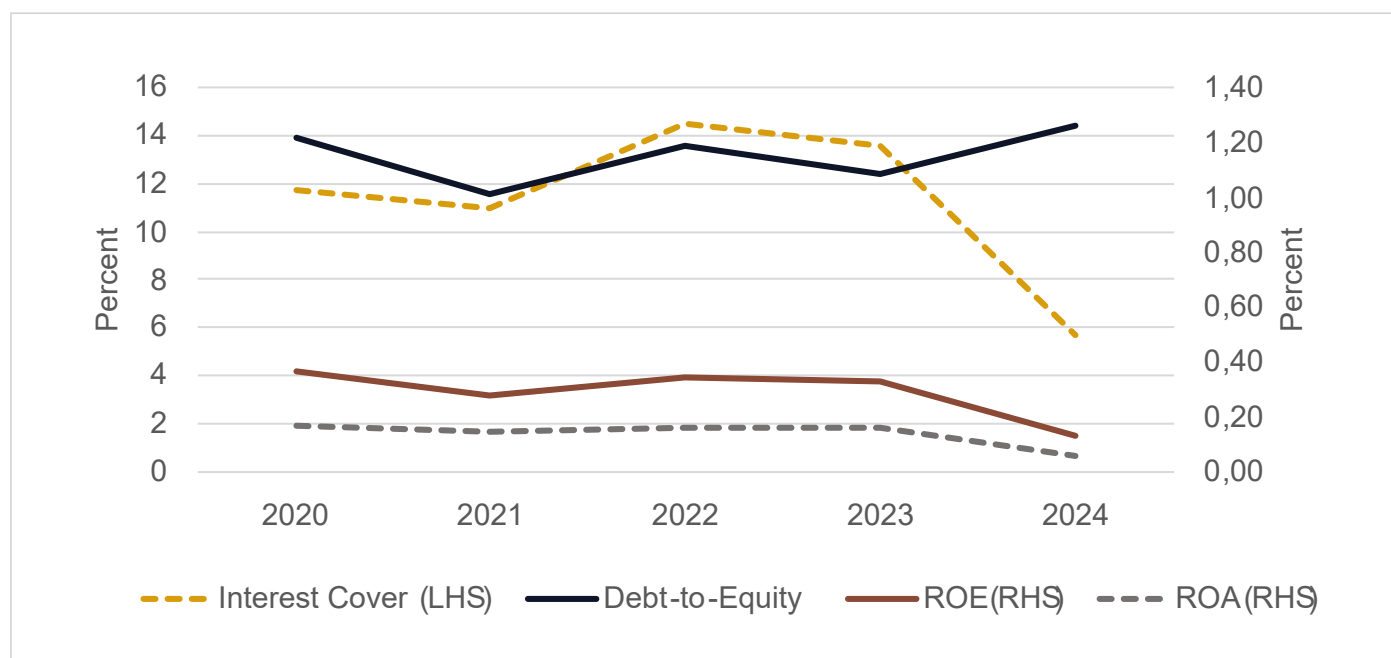
5.2 Large Corporates

In the review period, the large corporate sector has experienced some developments that present risks to the broader financial system. This period was marked by a sharp contraction in profitability coupled with rising debt levels. In 2024, profits fell by approximately 74.1 percent compared to the previous year, primarily due to a 46.2 percent drop in revenue. This deterioration was reflected in a notable decrease in both the ROE and ROA ratios, signaling severe profitability challenges in 2024 compared to 2023.

Despite a reduction in total debt from E37.9 billion in 2023 to E29.4 billion in 2024, the debt-to-equity ratio increased from 1.1 percent to 1.3 percent. This increase highlights a sharper decline in equity than in overall debt, signaling heightened financial vulnerability. Should this trend persist, continued erosion of equity could amplify financial fragility and risk of insolvency for large corporates.

The interest cover ratio fell from 13.5 percent in 2023 to 5.7 percent in 2024. This decline indicates that large corporates are generating much lower earnings relative to their interest obligations, thereby increasing their susceptibility to default.

Figure 5.2: Large Corporate Financial Soundness Indicators



Source: Eswatini Revenue Service and Central Bank of Eswatini

6

BANKING SECTOR

Eswatini's banking sector remained sound, stable and resilient to potential shocks during the year to June 2024, supported by policy measures from the CBE. On aggregate, banks maintained robust capital and liquidity buffers, effectively shielding them against potential risks and vulnerabilities.

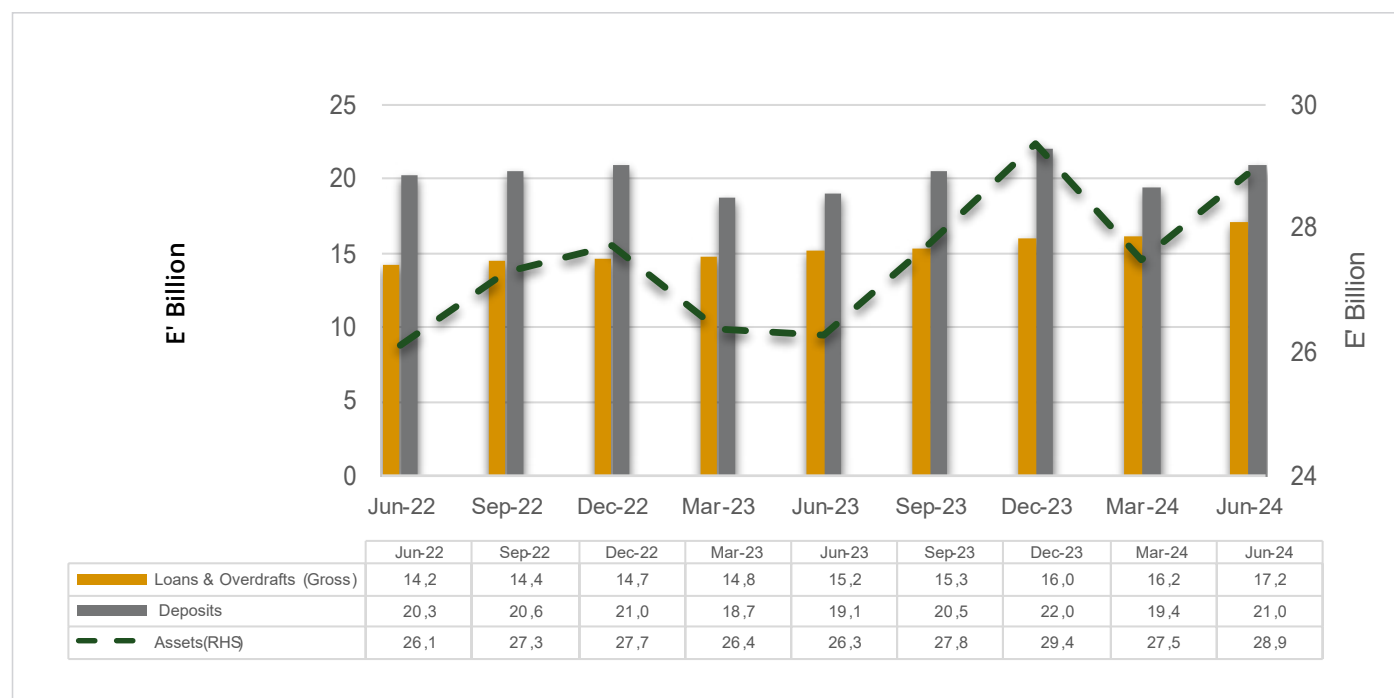
Despite this, capital levels declined compared to June 2023, and earnings and profitability faced significant pressures. However, asset quality saw some improvements, although liquidity experienced a slight, despite banks continuing to meet regulatory requirements.

6.1 Banking Sector Assets

As of June 2024, the total assets of the banking sector grew by 9.9 percent to E28.9 billion, a notable improvement from 0.6 percent growth observed in the prior year. This increase was mainly driven by a 12.8 percent growth in new lending, amounting to E1.9 billion, which pushed total loans and advances to E17.2 billion.

Banks also increased their holdings of balances abroad by 14.6 percent from E3.7 billion as at end-June 2023 to E4.3 billion, over the year to June 2024. On the funding side, total deposits increased by 10.1 percent, reaching E21.0 billion, while total shareholders' funds amounted to E4.2 billion by the end of June 2024, growing by 5.2 percent.

Figure 6.1: Loans, Deposits and Assets



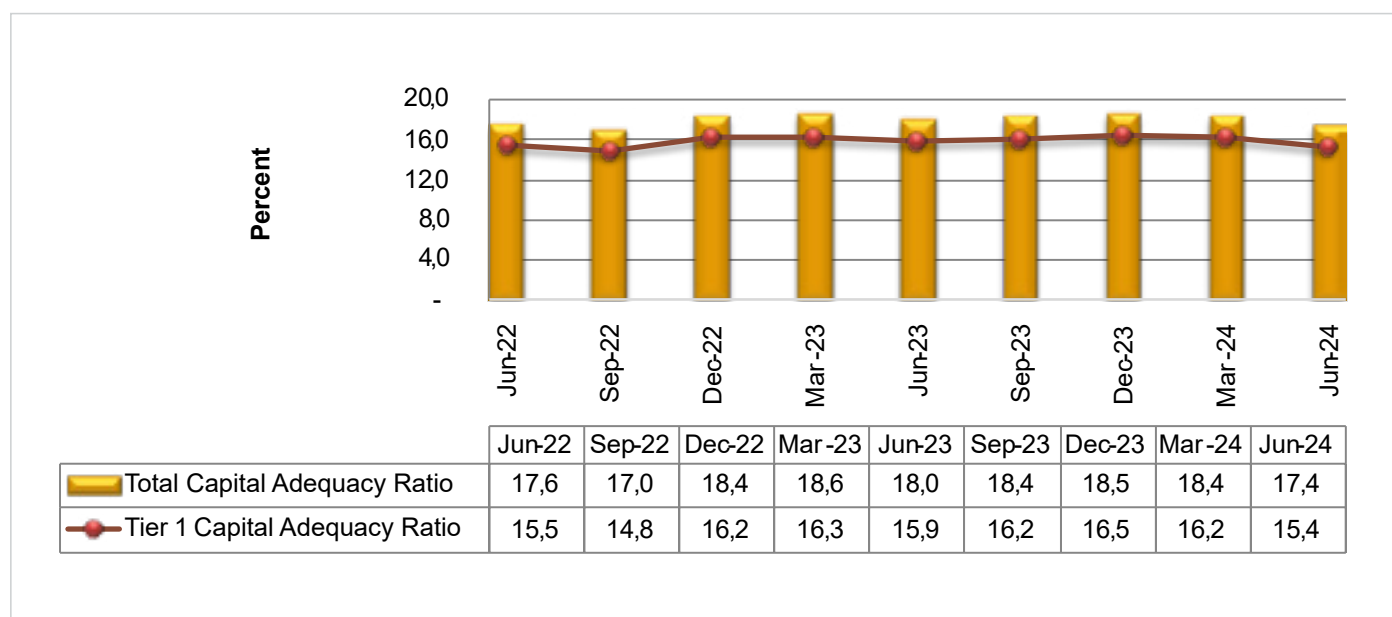
Source: Central Bank of Eswatini

6.2 Capital Adequacy

The banking sector remains well capitalized and largely resilient to emerging global and domestic shocks. This is despite a reduction in aggregate earnings and profitability, which was largely driven by rising other interest expenses (108.2 percent), other expenses (9.4 percent), salaries, wages and staff costs (7.4 percent), and interest expenses on deposits (6.1 percent).

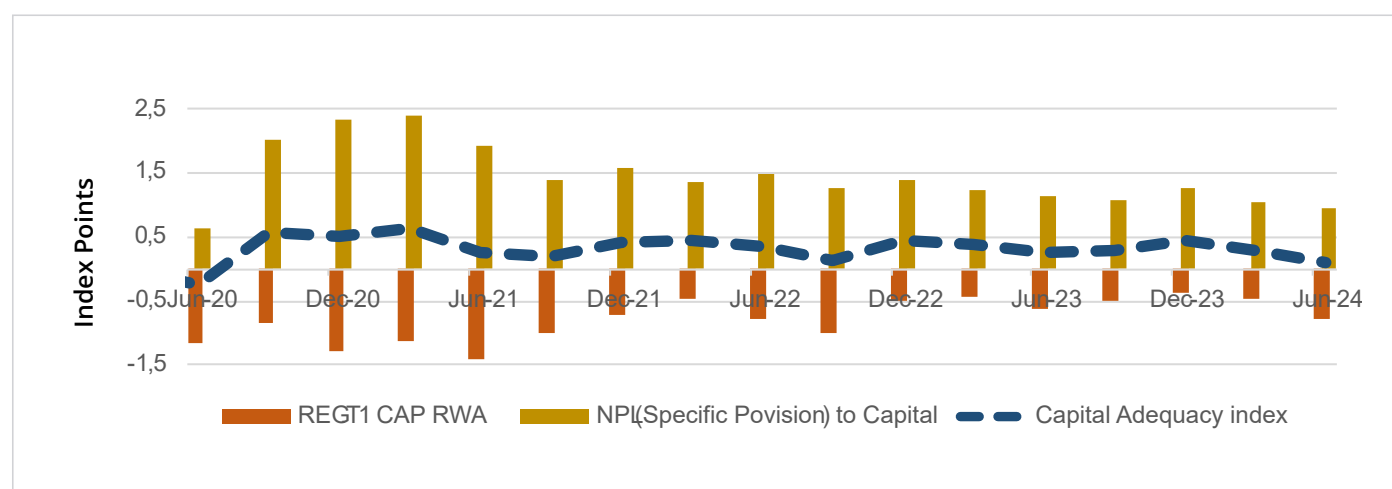
In line with the trend in earnings and profitability, banks' aggregate Tier 1 Capital declined from 16.5 percent in June 2023 to 15.4 percent in June 2024, while the average CAR declined to 17.4 percent from 18.5 percent.

Figure 6.2: Banking Sector Capital Adequacy Ratios



Source: Central Bank of Eswatini

Figure 6.3: Capital Adequacy Index



Source: Central Bank of Eswatini

6.3 Earnings and Profitability

Commercial banks' aggregate net profit-after-tax reduced by 14.4 percent from E671.4 million to E574.9 million for the year ended 30 June 2024, driven largely by a 108.2 percent increase in interest expenses. This resulted in a decline in the ROA, which fell from 2.6 percent to 2.0 percent and the ROE, which also decreased from 17.0 percent to 13.8 percent.

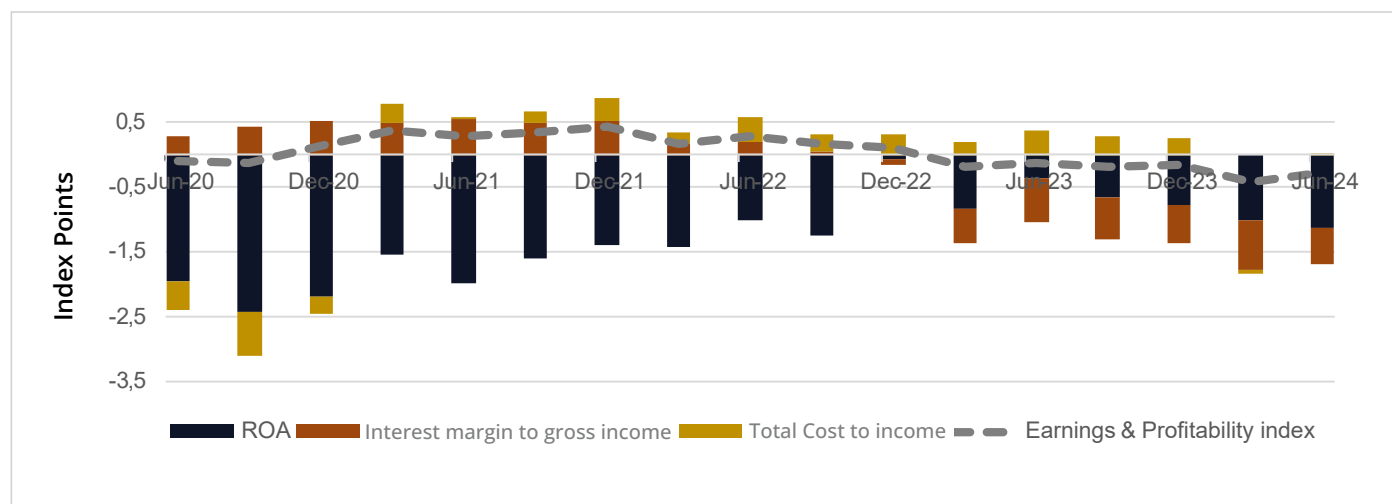
Operational efficiency within the sector also diminished, as the cost-to-income ratio rose from 75.3 percent to 78.3 percent during the year under review. Banks' operating expenses increased to 50.5 percent of total income, from 48.8 percent in the previous year.

Table 6.1: Earnings and Profitability

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Net profit after-tax (E. million)	671.4	650.4	661.4	575.0	574.9
ROA (%)	2.6	2.3	2.3	2.09	2.0
ROE (%)	17.3	16.2	15.8	14.0	13.8
Cost to income (%)	75.3	76.1	76.3	79.0	78.2
Overheads to income (%)	47.7	47.8	48.3	50.0	50.0

Source: Central Bank of Eswatini

Figure 6.4: Earnings and Profitability Index



Source: Central Bank of Eswatini

6.4 Asset Quality

The banking sector's asset quality showed moderate improvement. The ratio of non-performing loans to total loans fell from 7.1 percent in June 2023 to 6.7 percent in June 2024. However, the absolute value of NPLs increased by 6.3 percent from E1.1 billion as at end-June 2023 to E1.2 billion as at end-June 2024.

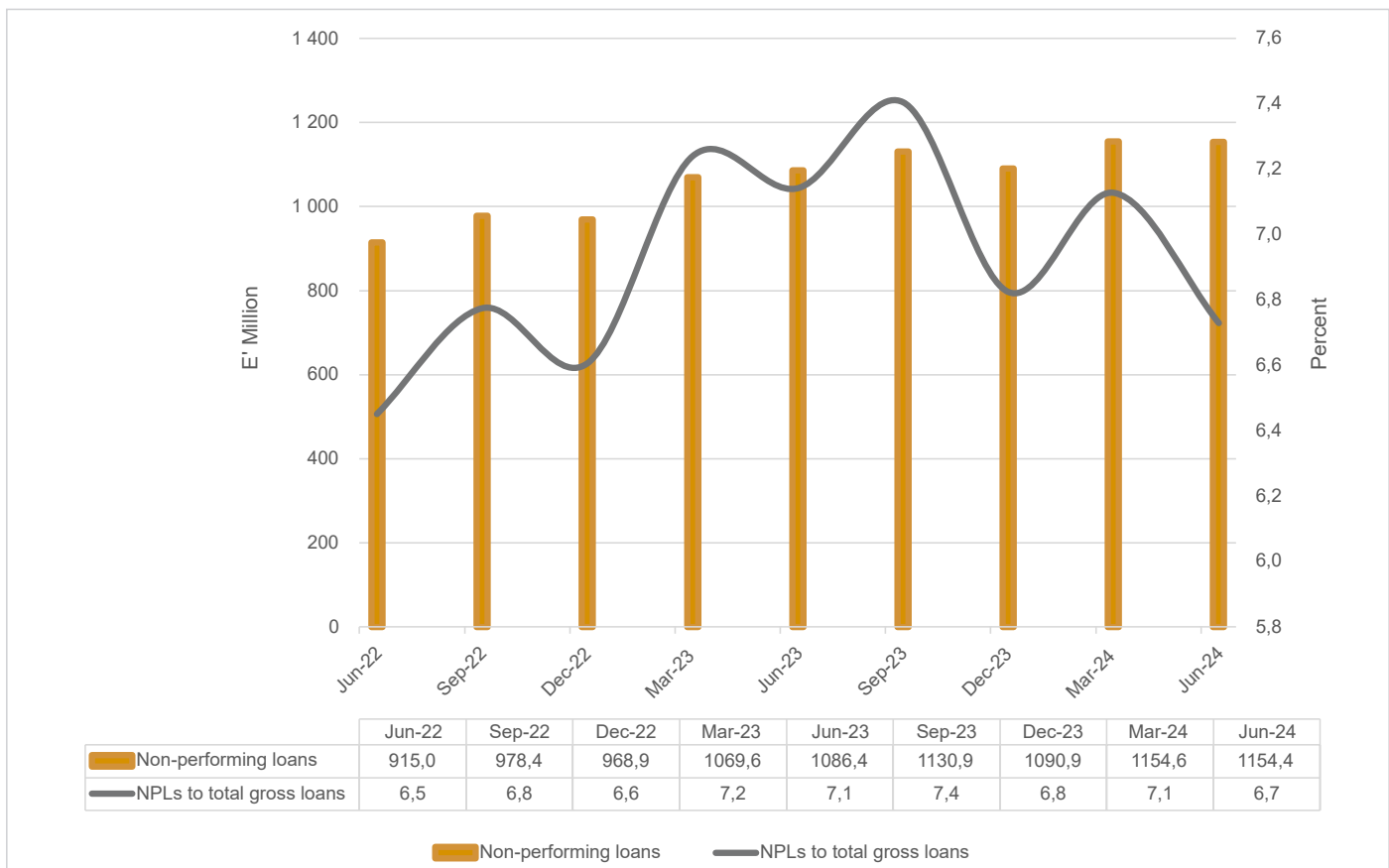
NPLs in the household sector stood at 6.5 percent, while those in the business sector amounted to 7.4 percent. The most affected business sectors were the distribution and tourism (24.7 percent), construction (11.2 percent), real estate (10.9 percent), and the transport and communications (10.6 percent).

Table 6.2: Selected Sectors' NPLs (%)

	Jun-23	Jun-23	Dec-23	Mar-24	Jun-24
Agriculture & Forestry	3.8	3.8	4.4	3.5	4.6
Construction	15.3	15.3	14.5	14.7	11.2
Distribution & Tourism	25.0	25.0	21.9	23.9	24.7
Transport & Communications	9.4	9.4	0.5	10.2	10.6
Community, Social & Personal Services	5.6	5.6	3.6	5.2	5.0
Real Estate	10.7	10.7	10.8	10.8	10.9

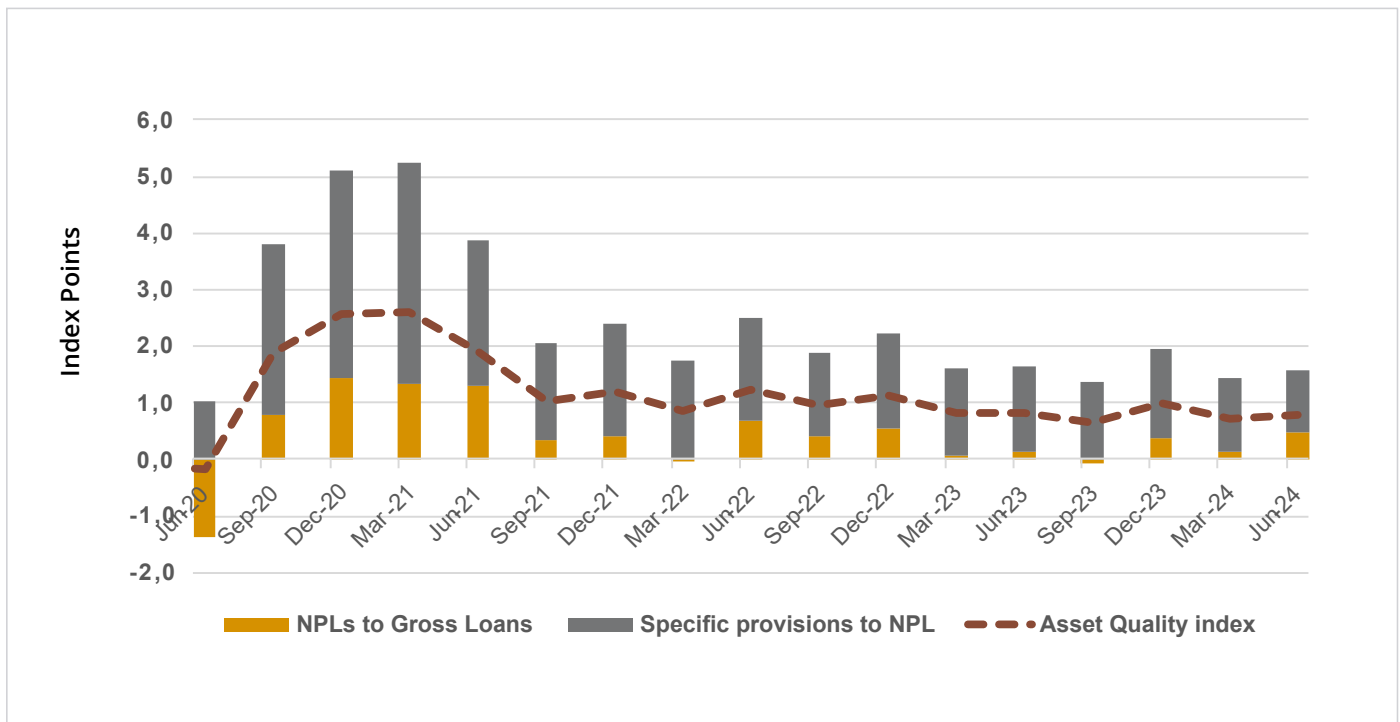
Source: Central Bank of Eswatini

Figure 6.5: Non - performing Loans



Source: Central Bank of Eswatini

Figure 6.6: Asset Quality Index



Source: Central Bank of Eswatini

6.5 Liquidity Risk

Liquidity risk remained low liquidity conditions deteriorated during the year under review. This was primarily due to an increase in commercial banks' holdings with other banks in Eswatini (liquid assets), growth in retail deposits, and a lower cost of wholesale funding. Average bank liquidity to total deposits fell from

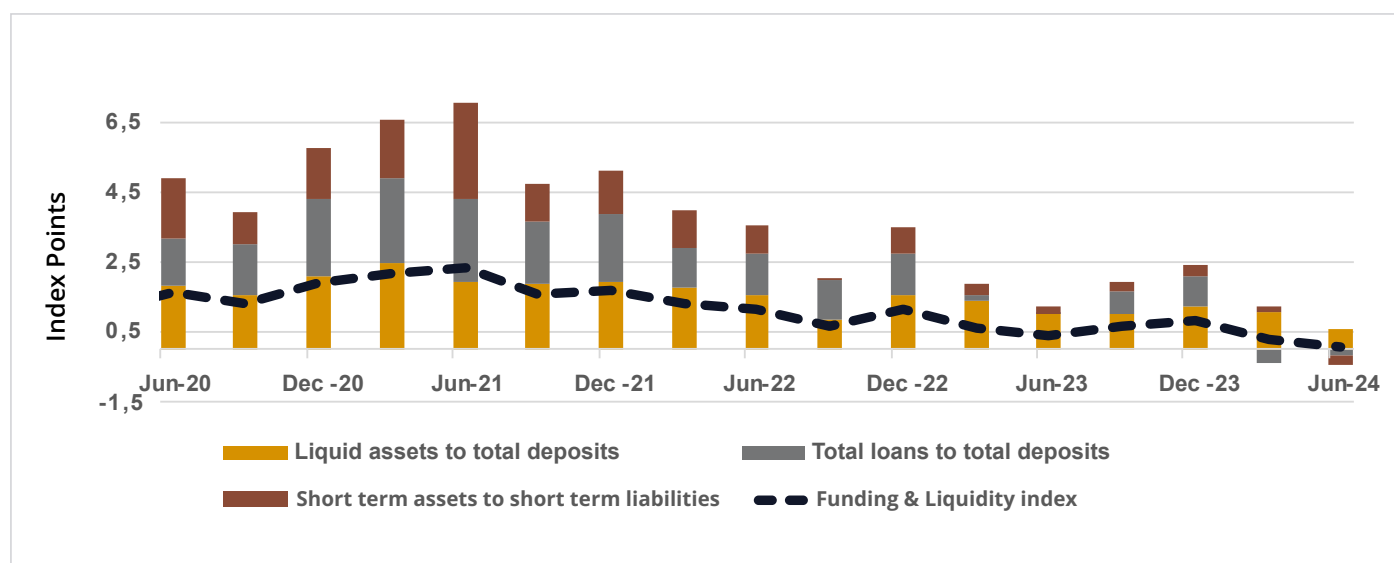
33.8 percent in June 2023 to 30.9 in June 2024. Government securities accounted for 59.9 percent of liquid assets, totaling E3.9 billion, the ratio of loans and advances to deposits increased to 81.7 percent, up from 79.8 percent, reflecting a higher level of financial intermediation.

Table 6.3: Liquidity Indicators

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Total loans to total deposits (%)	79.8	74.6	72.7	83.5	81.7
Liquid assets to total deposits (%)	33.8	34.5	36.1	34.9	30.9
Liquid assets to total assets (%)	24.5	25.4	27.0	24.6	22.5
Liquid assets to short-term liabilities (%) (Short-term gap)	30.5	31.3	32.1	30.2	27.3

Source: Central Bank of Eswatini

Figure 6.7: Funding and Liquidity Index



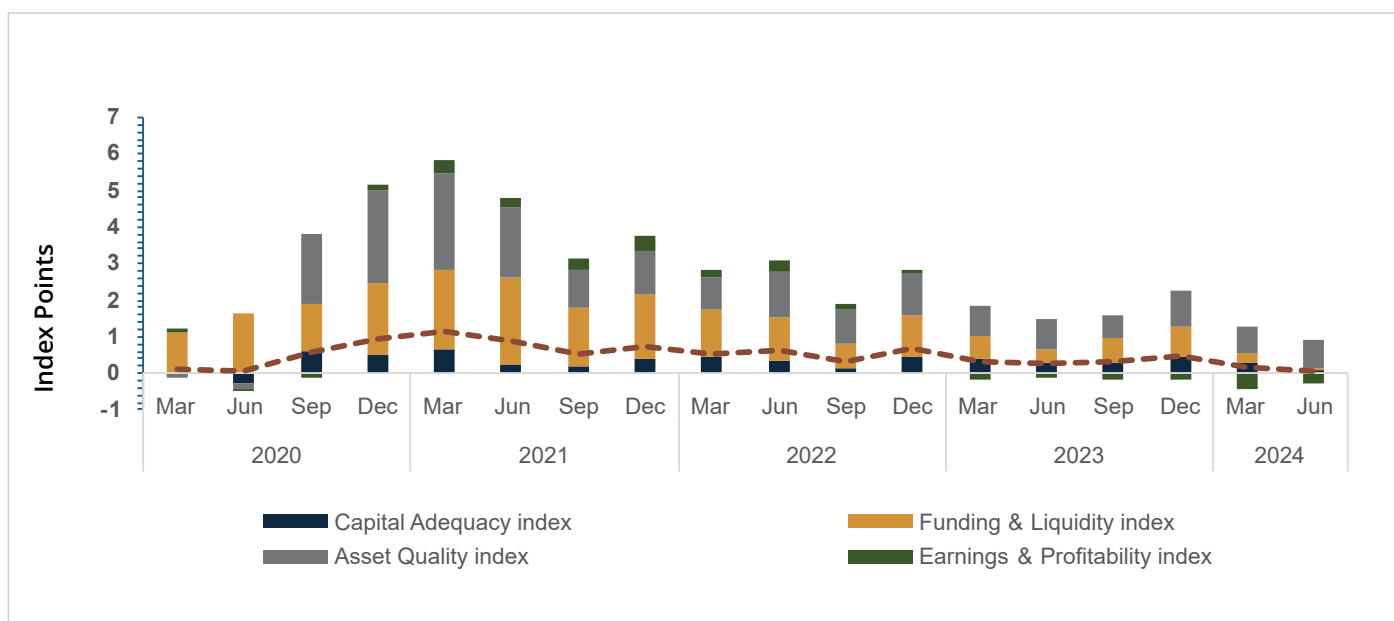
Source: Central Bank of Eswatini

6.6 Financial Soundness Index

During the year under review, the financial soundness index deteriorated, indicating a weakening of the banking sector's resilience to potential shocks. This was largely due to decreasing earnings, profitability, and capital adequacy.

The liquidity position also showed a downward trend, further constraining bank's ability to meet future obligations. Nonetheless, there was some improvement in asset quality, reflecting gradual economic recovery.

Figure 6.8: Financial Soundness Index



Source: Central Bank of Eswatini

7

NON-BANK FINANCIAL INSTITUTIONS

7.1 BUILDING SOCIETIES

The financial stability of Building Societies saw a decline in capital adequacy for the year ending June 2024, with the CAR falling from 54.0 percent to 48.5 percent. Credit risk remains a significant concern. NPLs ratio deteriorated from 12.4 percent in June 2023 to 13.3 percent by June 2024. In the year to June 2024, the Society reported a net profit after-tax of E53.4 million, reflecting a decline from the previous year's earnings.

Return on assets (ROA) and return on equity (ROE) stood at 1.5 percent and 3.8 percent, respectively, down from 1.9 percent and 3.7 percent in June 2023. Liquidity conditions improved slightly by end-June 2024, aided by higher holdings in liquid assets. The Society held E297.4 million in liquid assets, surpassing the minimum requirement of E193.0 million by E104.4 million.

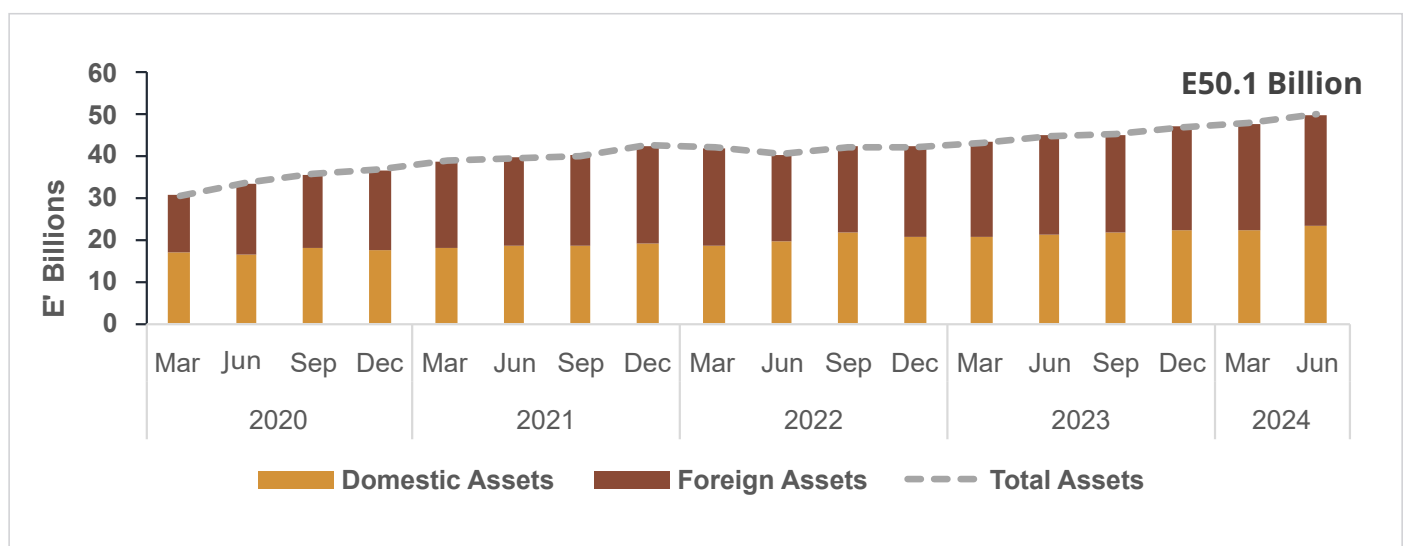
7.2 PENSION FUNDS

7.2.1 Pension Sector Assets

As of June 2024, pension sector assets totaled E50.1 billion, up 11.6 percent from E44.9 billion in June 2023. This growth indicates robust saving for retirement, enhancing future financial resilience and reducing long-term government burdens.

A well-capitalized pension sector also promotes liquidity and market stability, smoothing economic fluctuations, especially during financial stress.

Figure 7.1: Pension Sector Assets



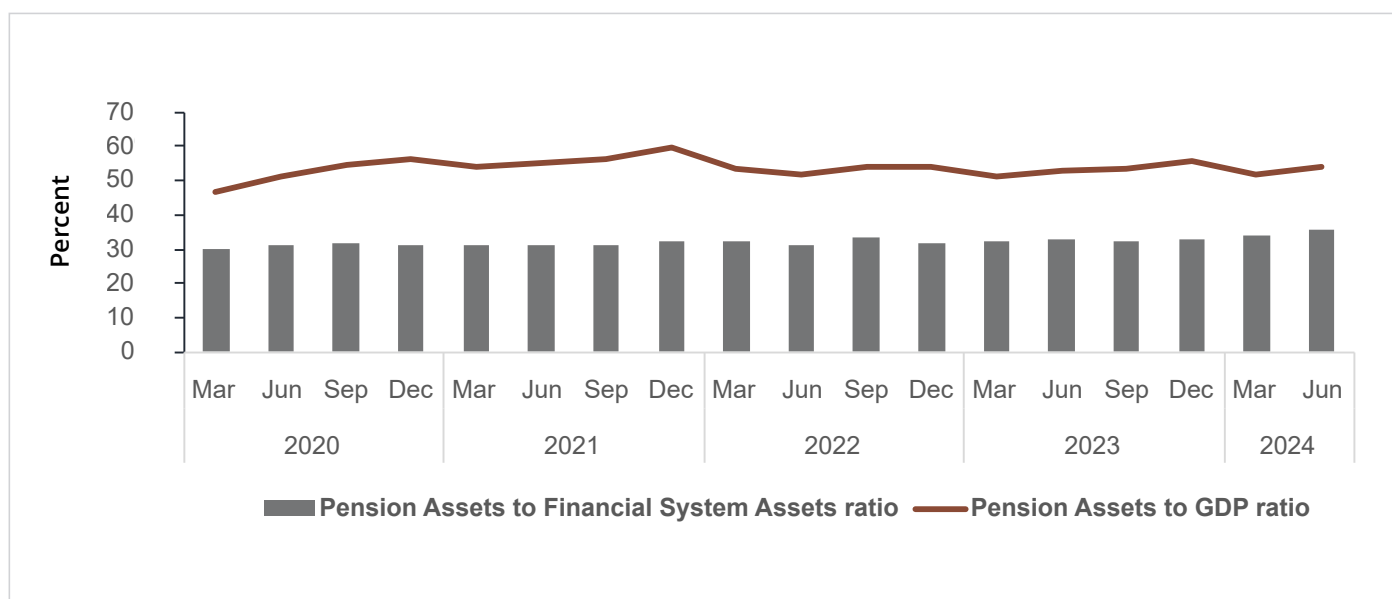
Source: Central Bank of Eswatini, Financial Services Regulatory Authority

7.2.2 Penetration Rates

Pension assets comprised 54.1 percent of GDP and 35.9 percent of the financial system by end-June 2024, underscoring their economic significance. Pension assets' ratio to GDP suggests substantial national savings in

retirement, which underpins economic activity via investments across equities, bonds, and infrastructure. With 35.9 percent of financial system assets in pensions, the sector holds significant systemic importance, potentially influencing market dynamics and stability.

Figure 7.2: Penetration Rates

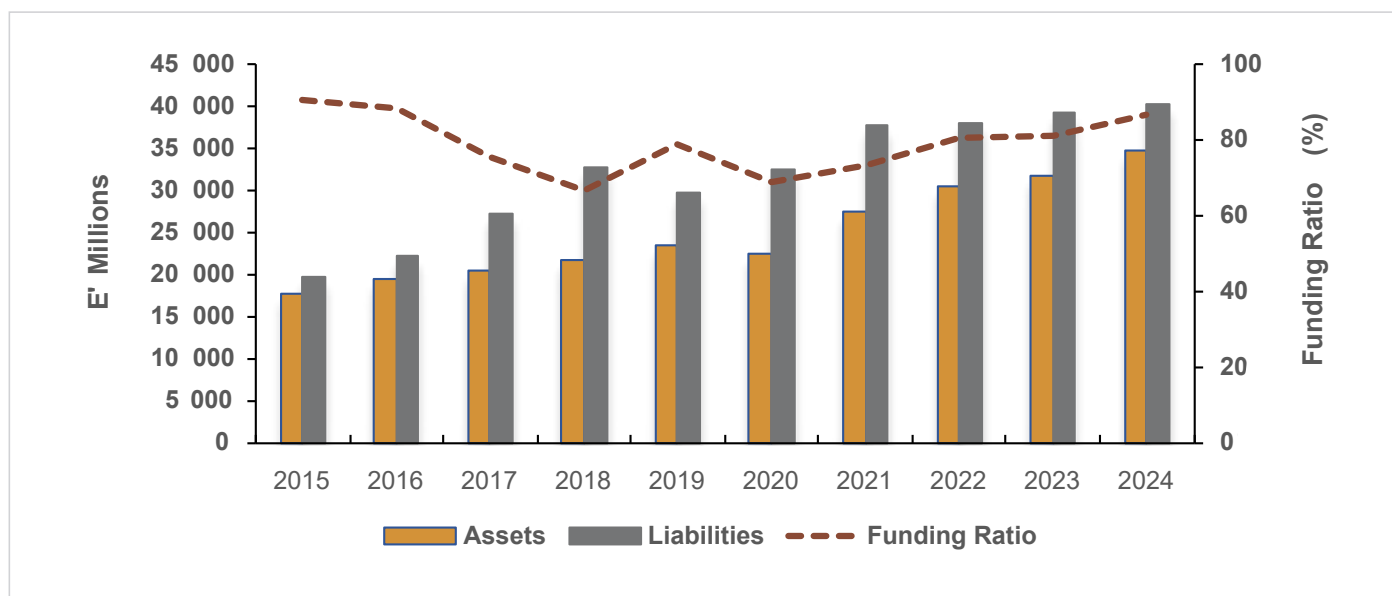


Source: Central Bank of Eswatini, Financial Services Regulatory Authority

The pension sector closed June 2024 with liabilities valued at E40.2 billion against assets of E34.7 billion, resulting in an 86.3 percent funding ratio and a shortfall of E5.5 billion. While the funding level is below the 100 percent threshold, the increase reflects improved investment performance

and employer/employee contributions. However, a sub-100 percent funding level may require higher contributions or riskier investments to bridge the gap, which could impact financial stability.

Figure 7.3: Funded Status



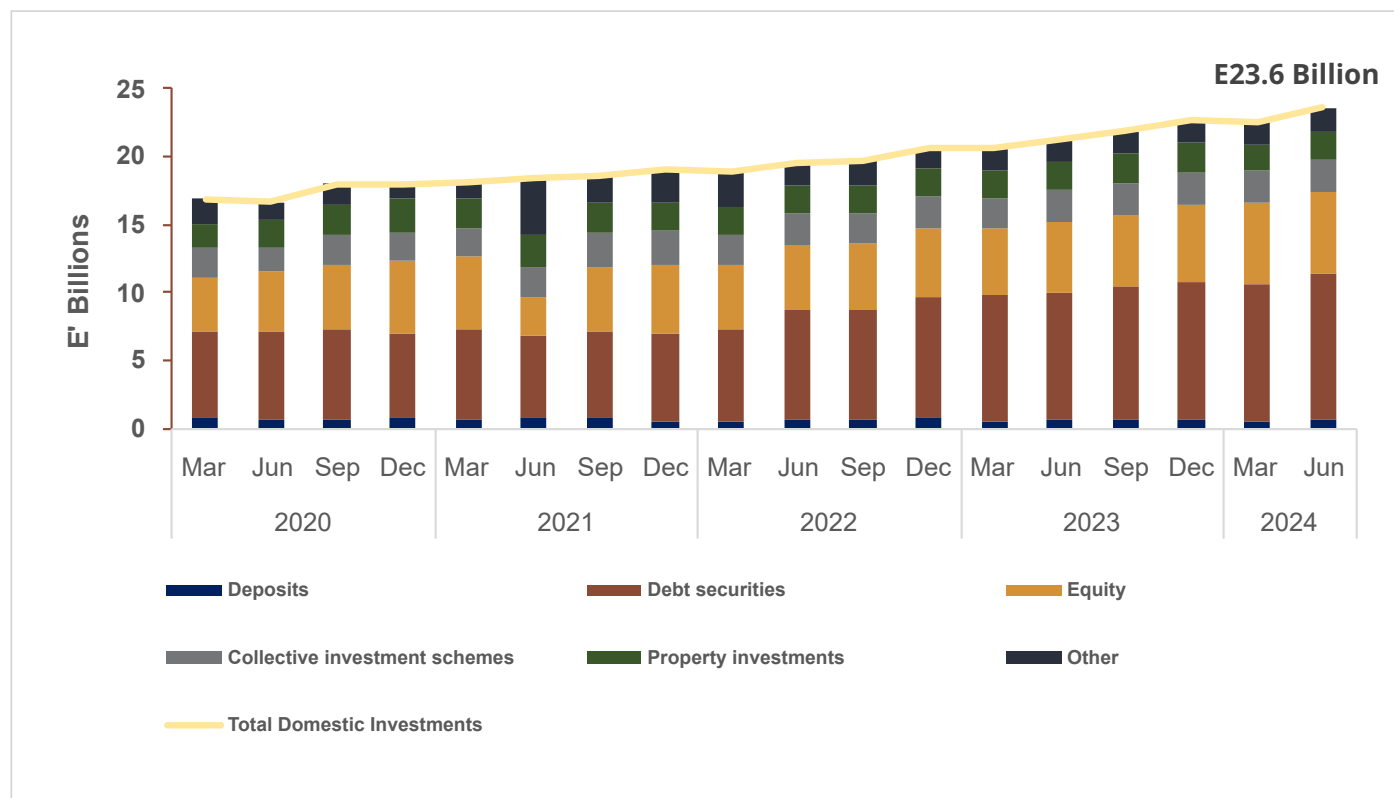
Source: Retirement Funds Annual Financial Statements, Central Bank of Eswatini

7.2.3 Domestic Investment Portfolio

Domestic investments accounted for 47.1 percent of total pension assets by June 2024, primarily in debt securities (45.1 percent) and equities (25.3 percent). Exposure to debt securities, while income-stable, poses risks from interest rate increases, as fixed-rate bonds may lose value, affecting portfolio valuation.

Significant investments in collective investment schemes (CIS), especially private equity, introduce liquidity constraints, given potential withdrawal restrictions during market downturns.

Figure 7.4: Domestic Investment Allocation



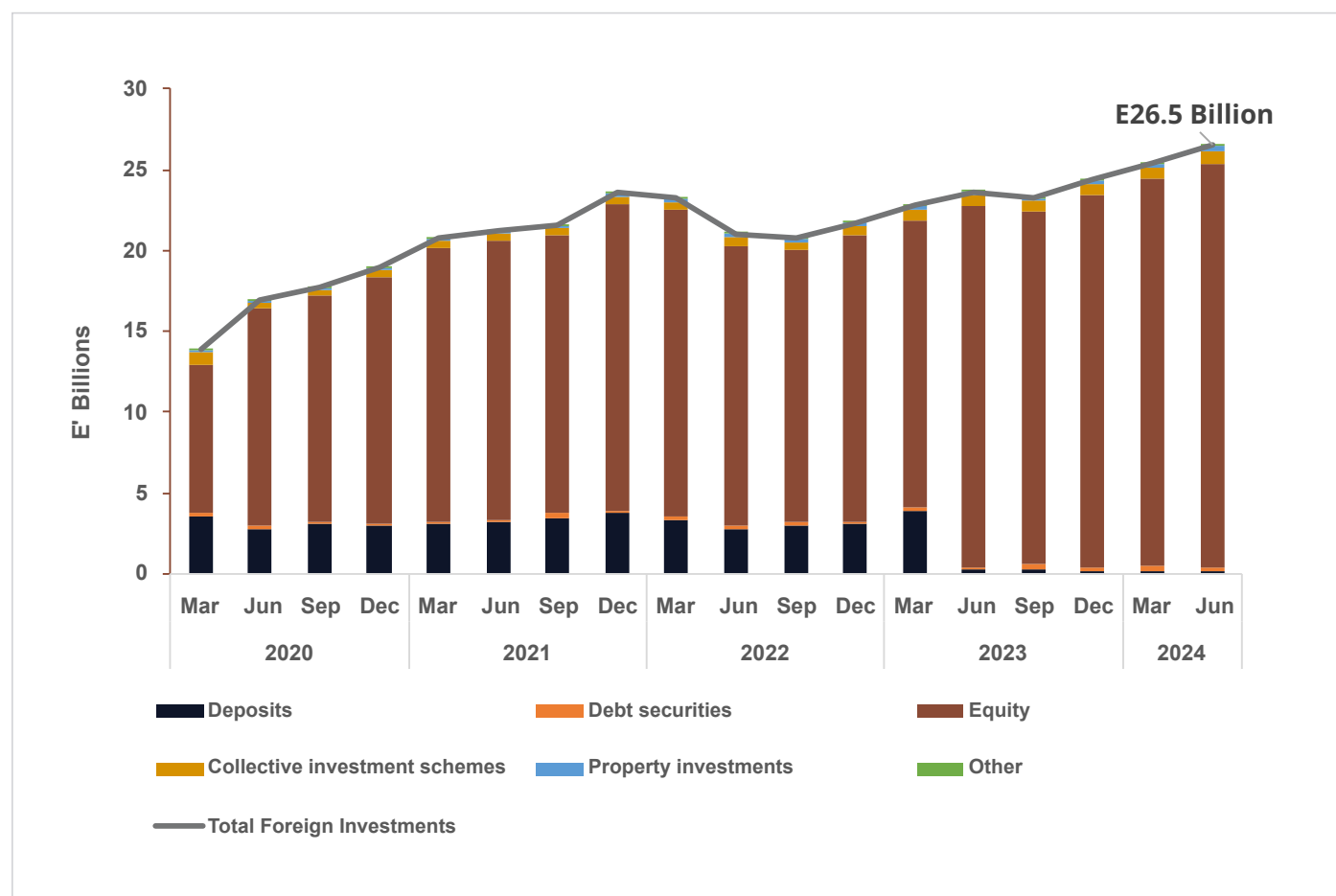
Source: Central Bank of Eswatini, Financial Services Regulatory Authority

7.2.4 Foreign Investment Allocation

Foreign investments made up 52.9 percent of total pension assets, increasing by 12.2 percent year-over-year to E26.5 billion. Primarily invested in South African equities, the portfolio is exposed to local market volatility due to economic and political factors.

South African equities, while beneficial in bull markets, present risk amid economic uncertainty, policy shifts, and corporate governance issues, which could impact pension fund performance.

Figure 7.5: Foreign Investment Allocation



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

7.2.5 Risks in the Pension Sector

Concentration Risk

The sector is highly concentrated, with the Public Service Pensions Fund (PSPF) and Eswatini National Provident Fund (ENPF) collectively holding 84 percent of market share, equating to 54.1 percent of GDP. Disruptions to either fund could have significant consequences for financial stability, given their interconnectedness with other financial institutions and the real economy.

Financial Risk

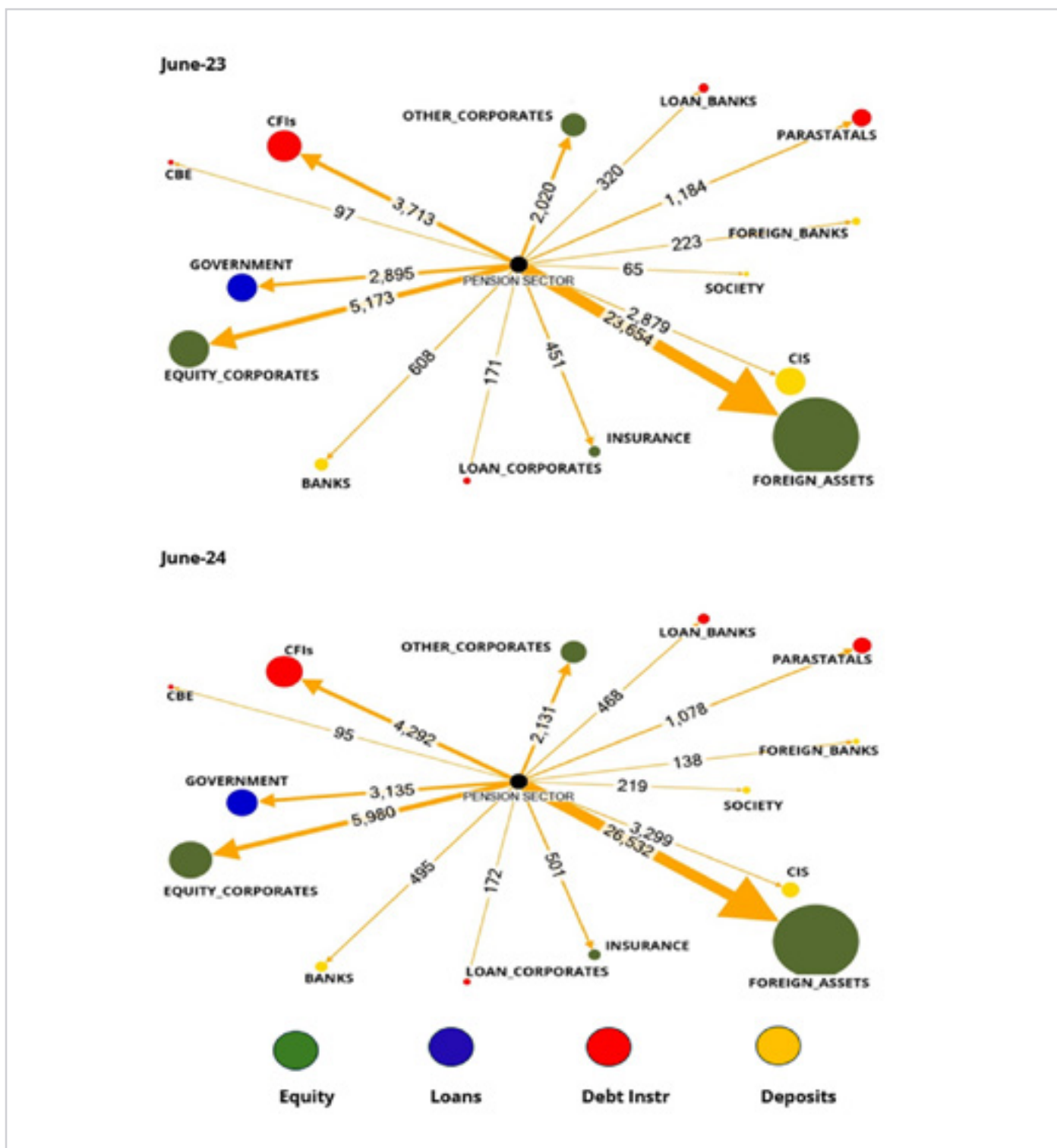
Increasing funding ratios suggest a healthy balance between assets and liabilities, indicating robust financial management.

Systemic Risk

Figure 7.6 illustrates a macro network of assets for the pension sector. Pension funds have notable domestic and international interconnections, particularly through South African asset managers and local corporate lending. These linkages amplify systemic risk but also underscore the sector's role in financial intermediation and economic stability. The sector also has domestic exposures in collective investment schemes, domestic equity holdings, government bonds, and large loan issuance to corporates in the economy.

Continued alignment of contributions and investment returns with liability growth will be essential for ongoing stability.

Figure 7.6: Pension Sector Interconnectedness (E' Million)



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

The pension sector's current funding status, combined with domestic and international exposures, demands vigilant risk management and monitoring to ensure resilience and minimize systemic risks.

The pension fund's stability is integral to sustaining economic growth, with significant influence on both financial markets and social welfare.

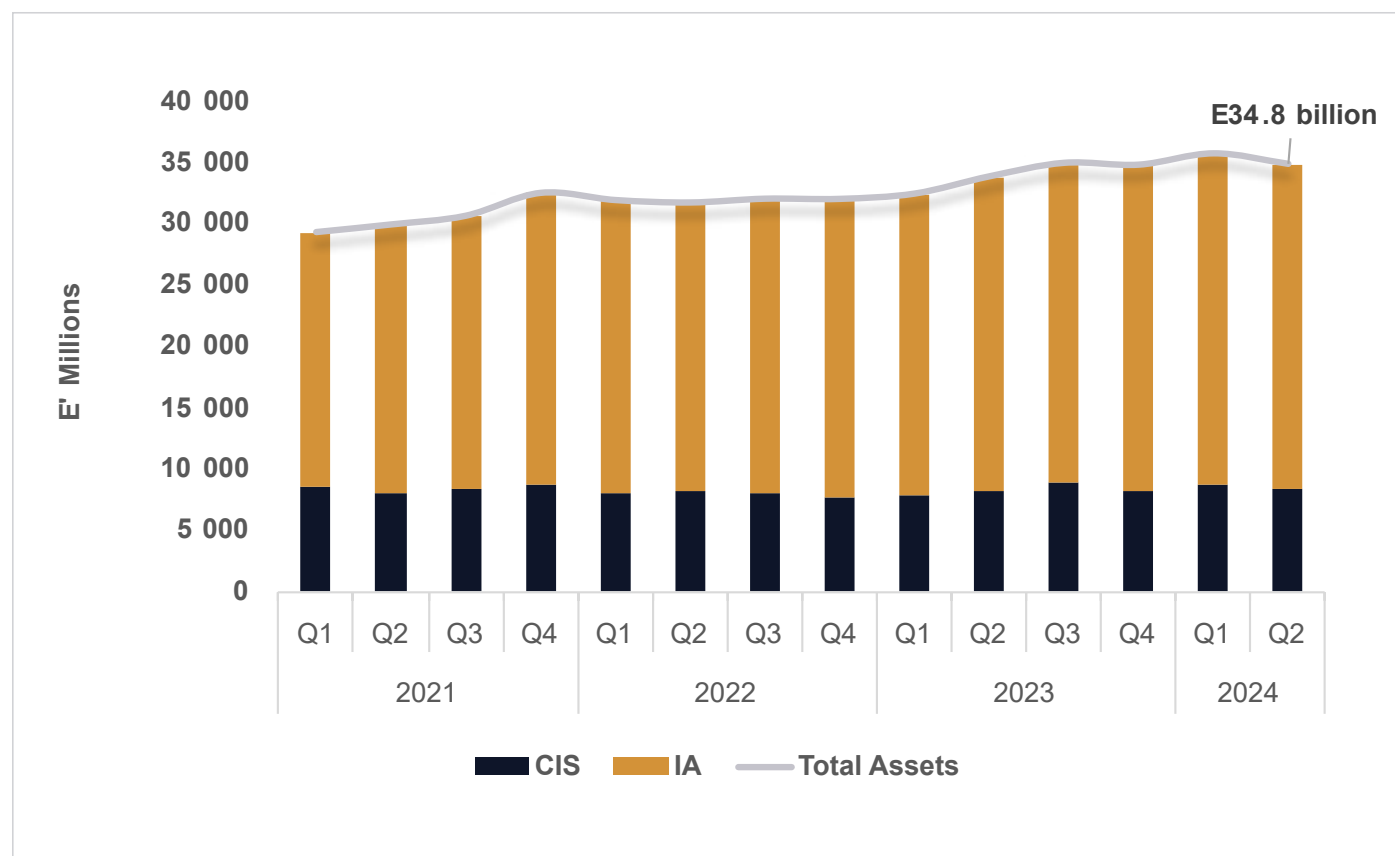
7.3 CAPITAL AND FINANCIAL MARKETS

7.3.1 Capital Markets

Total assets under management in the capital market sector experienced a year-on-year increase of 3.0 percent from E33.8 billion in June 2023 to E34.8 billion in the year to June 2024.

This growth was primarily driven by enhanced investments from retirement funds and favourable market conditions associated with rising interest rates, which helped mitigate inflationary pressures and bolstered returns in the capital markets over the period.

Figure 7.7: Capital Markets Total Assets



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

Despite generally positive trends, it is crucial to recognize the inherent volatility of capital markets.

The industry remains sensitive to bond maturity profiles, and rapid changes are possible given the sector's intrinsic unpredictability.

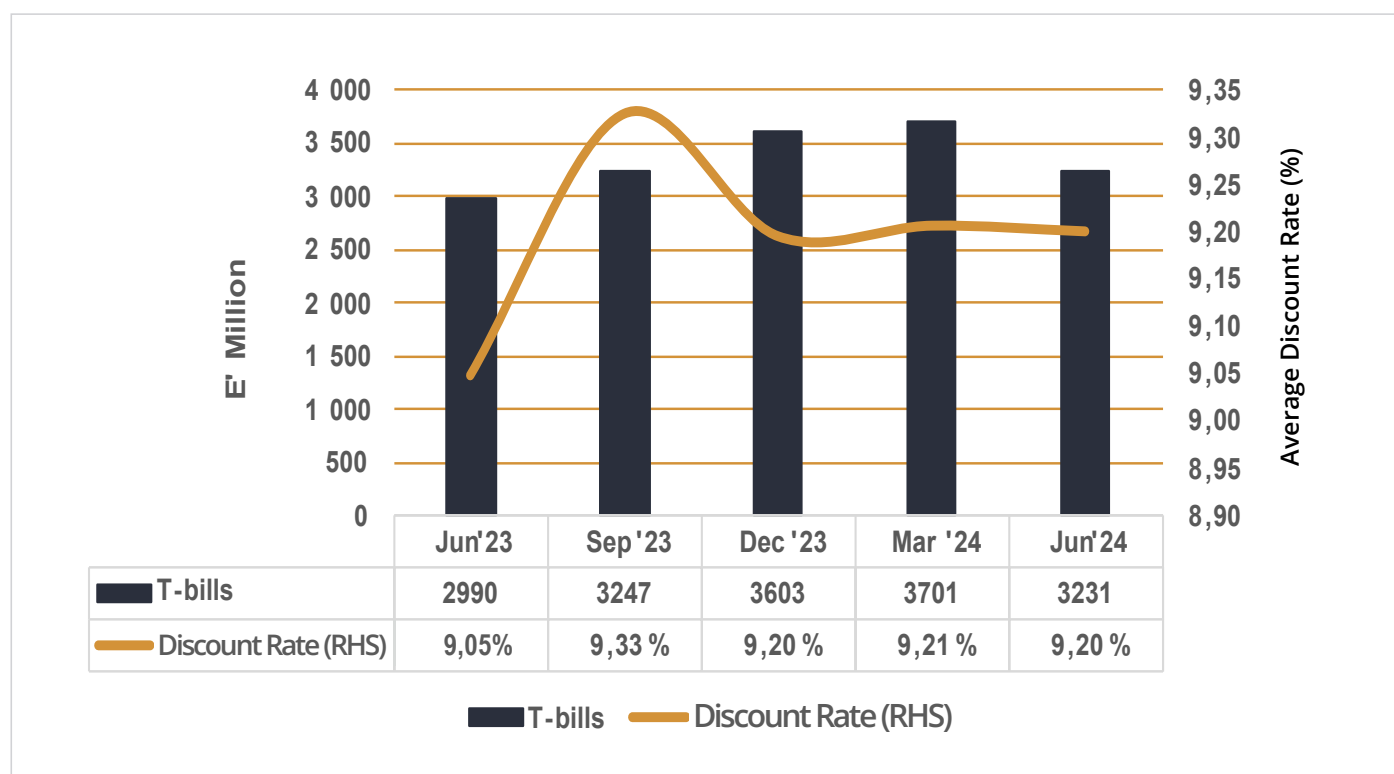
7.3.2 Geographical Allocation of Total Assets

As of June 2024, asset allocation across Eswatini's capital markets was distributed over three key regions: domestic (37.3 percent, E13.0 billion), CMA (47.1 percent, E16.4 billion), and offshore markets (15.6 percent, E5.4 billion). Over the year, there has been a strategic shift towards the CMA, buoyed by strong equity performance and favourable yields, with some assets migrating from the domestic market, which saw a decline from 44.5 percent in June 2023 to 40.0 percent in June 2024.

Off-shore allocations remained relatively stable 15.9 percent. As illustrated in Figure 7.4, Retirement and pension funds dominate the sector contributing over E23.6 billion, equivalent to 67.7 percent of total capital markets assets by the end of June 2024. Other investors include companies (12.4 percent, E4.3 billion), CIS (8.0 percent, E2.8 billion), and retail investors, alongside institutional insurers and other smaller entities, which collectively contribute under 8 percent.

7.3.3 Financial Markets

Figure 7.8: Treasury Bills and Average Discount Rates



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

There has been an increase in the uptake of treasury bills in the period under review when compared to the same period of the previous year, as seen in figure 7.8 above.

The average discount rate over the same period increased by 15.2 basis points from an average of 9.049 percent in June 2023 to an average of 9.201 percent in June 2024.

Table 7.1 Holdings of Eswatini Government Bonds (E'Million)

	Jun-23	Sept-23	Dec-23	Mar 2024	Jun 2024
Total	11, 092.09	11, 165.97	11,531.78	11,172.11	11,039.88
Banks	2, 490.97	2,486.98	2,550.65	2,402.27	2,403.22
Non-Bank Institutions	6, 688.97	6,802.97	7,096.17	7,025.39	7,028.39
Other	615.10	579.85	587.85	578.19	438.03
Central Bank of Eswatini (OMO)	1, 297.05	1,269.51	1,297.11	996.26	996.24
Foreign Institutions				170.00	174.00
Ration (T - Bills and T - bonds)	78.06%	77.47%	76.19%	75.11%	75.11%

Source: Central Bank of Eswatini, Financial Services Regulatory Authority

Government bond holdings also showed variations across investor categories:

- **Total Government Bonds:** Decreased by E52.2 million, from E11.1 billion in June 2023 to E11.0 billion in June 2024.
- **Commercial Banks:** Declined by E87.8 million to E2.4 billion.
- **Non-Banking Financial Institutions:** Increased holdings by 5.1 percent (E339.4 million), reaching E7.0 billion.
- **Other Investors:** Saw a decline of E177.1 million (28.8 percent), reducing holdings to E438.0 million.
- **Central Bank:** Reduced holdings by E300.8 million (23.2 percent), to E996.24 million.

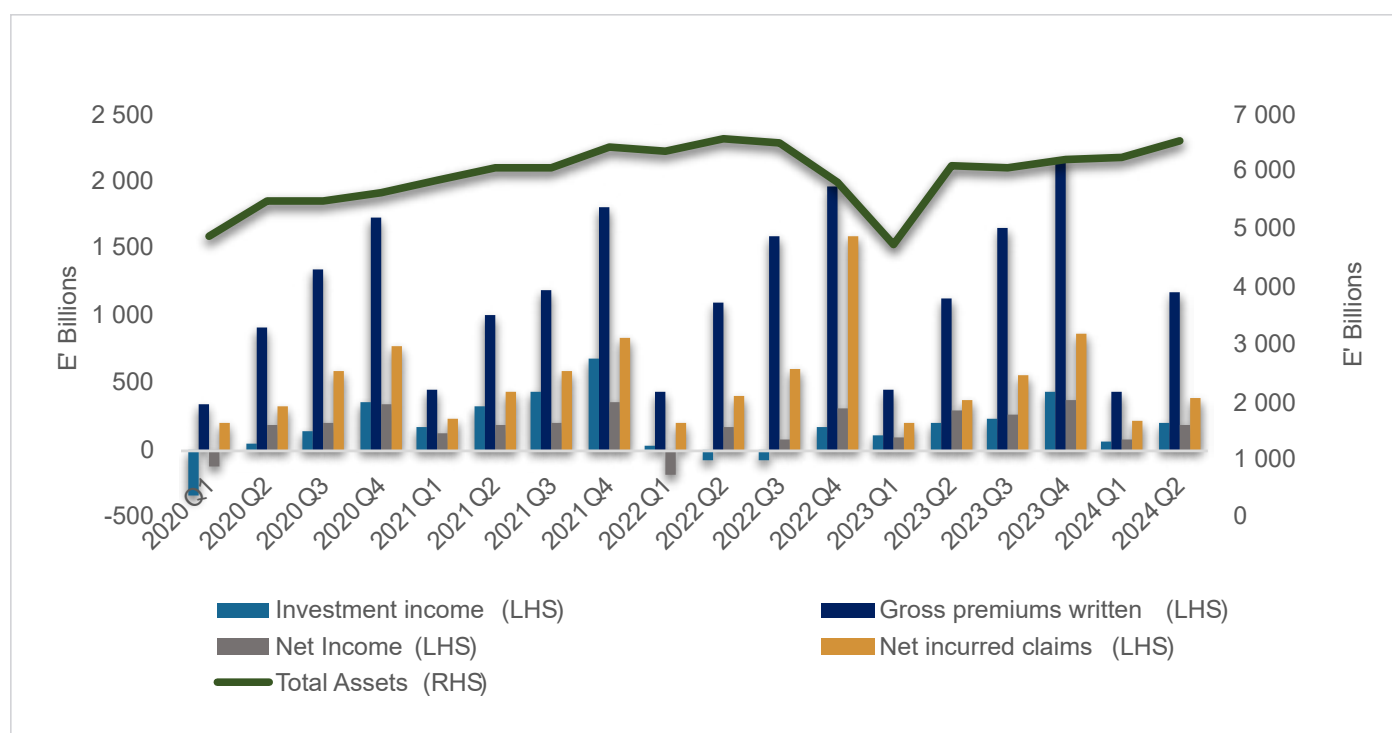
7.4 INSURANCE SECTOR

7.4.1 Total Insurance Sector

The insurance sector in Eswatini is experiencing both resilience and challenges, with the long-term segment showing positive risk management capacity, while the short-term segment faces profitability and efficiency constraints. Net premiums earned in the short-term segment declined by about 28 percent, while the

value of claims paid out increased by about 33 percent. These factors collectively exerted downward pressure on the profitability of the short-term insurance market. Despite these challenges, the sector remained liquid, evidenced by growth in total assets in the review period.

Figure 7.9: Selected Insurance Industry Indicators



Source: Central Bank of Eswatini, Financial Services Regulatory Authority

7.4.2 Short-Term Insurance

The short-term insurance sector demonstrated declining financial resilience, as indicated by a decrease in the capital-to-asset ratio (CAR) from 56.9 percent to 46.0 percent. These factors, coupled with a worsening loss ratio (from 14.9 percent to 17.9 percent) and reduced profitability, reflected in the decline of ROA from 13.8 percent to 5.0 percent and ROE, from 24.3 percent to 10.8 percent, suggest a period of deteriorating performance. This trend signals heightened vulnerability in meeting policyholder obligations and suggests increased costs and inefficiencies that may impact stability.

7.4.3 Long-Term Insurance

The long-term insurance sector exhibited financial enhanced financial resilience, with CAR improving from 14.1 percent to 16.4 percent, indicating greater capacity to manage risks and fulfill obligations to policyholders. The sector saw a modest reduction in the loss ratio, dipping from 52.5 percent to 51.3 percent, alongside an 8.8 percent rise in net income. While ROA remained stable at 2.4 percent, ROE experienced a slight decrease from 16.7 percent to 14.7 percent. These results indicate sustained stability and soundness in the long-term insurance sector, which enhances its role in mitigating broader financial risks.

7.4.4 Risks Arising from the Insurance Sector

Concentration Risk

The insurance industry remains highly concentrated, with the two largest players dominating 75 percent of the long-term sector and 90 percent of the short-term segment. This concentration of risk, coupled with the sector's interconnections within the financial system, amplifies systemic risk and underscores the sector's critical role in supporting market stability.

Market Risk

Eswatini's insurance sector holds a large investment portfolio, valued at E5.6 billion as of June 2024, primarily allocated to equities, long-term debt, and money markets, with 87.1 percent of these assets in the long-term segment and substantial exposure to foreign markets within the Common Monetary Area. This high exposure to external markets makes the sector particularly vulnerable to market risk. While investment income showed a slight 1.8 percent decline over the review period, the potential for external shocks remains a significant consideration for insurer solvency and their ability to honor claims.

Climate Change Risks

Climate change poses an escalating risk to the insurance industry in Eswatini, as extreme weather events increase in frequency and severity across Southern Africa^[1,2,3]. With Eswatini's agriculture-dependent economy, which supports over 70 percent of the population, the impact of climate change is particularly pronounced, rendering the nation highly vulnerable (ranked 129th out of 185 globally on the ND-GAIN index). In response, regulatory bodies have introduced climate-related financial disclosure guidelines, urging insurers to evaluate and integrate climate risks within their risk management frameworks. Adapting underwriting and pricing models to account for these volatile risks is essential for the industry's resilience and long-term sustainability in light of increasing climate threats.

[1] <https://weatheringrisk.org/en/publication/climate-risk-profile-southern-africa>

[2] <https://reliefweb.int/report/eswatini/kingdom-eswatini-imf-country-report-no-24305-september-2024>

[3] https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-documents-issued-for-consultation/2023/proposed-guidance-notice-climate-related-disclosures-for-insurers/Climate%20Guidance_Disclosures_Insurers.pdf

8

FINANCIAL MARKET INFRASTRUCTURES

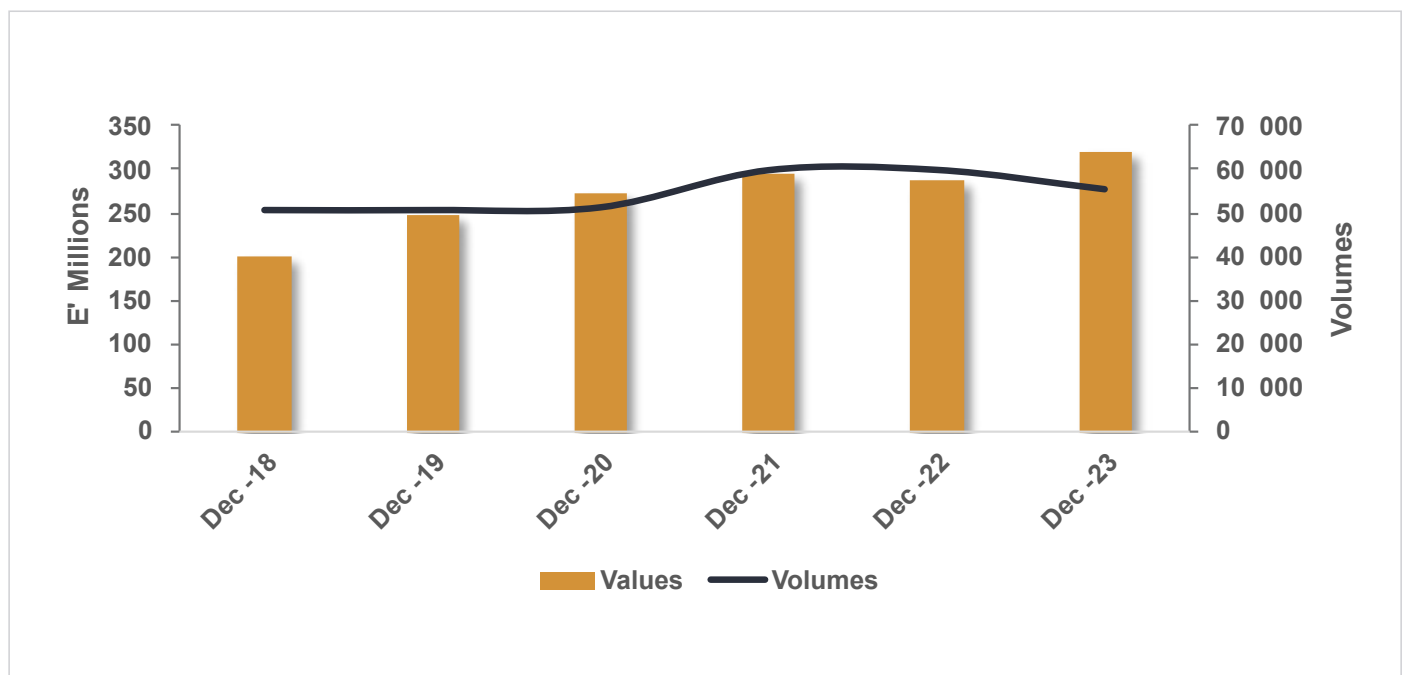
8.1 Performance of Financial Market Infrastructures

Financial market infrastructures (FMIs) in Eswatini are the systems through which payments, securities, derivatives and other financial transactions are cleared, settled and/or recorded and they serve as the backbone of the financial system. Eswatini's FMIs include the Swaziland Interbank Payment and Settlement System (SWIPSS), the Eswatini Clearing House (ECH), and the Central Securities Depository (CSD) for treasury securities. These FMIs have shown resilience and reliability, maintaining high operational standards, minimal disruptions, and a robust risk management framework. The shift toward digital services such as mobile money and internet banking continues to reshape consumer interactions with financial services.

8.2 Clearing and Settlement Systems

During the calendar year ending December 2023, Eswatini's clearing and settlement systems, including SWIPSS, demonstrated operational resilience and growth in transactional value, signaling healthy activity within the financial sector. SWIPSS processed 55,389 transactions valued at E320.1 million, a slight reduction in volume but an 11.1 percent increase in value over the prior period. Both credit and debit electronic funds transfer (EFT) transactions also grew in value by 9.1 percent and 9.3 percent, respectively, underscoring the increasing reliance on digital payments.

Figure 8.1: Volumes and Values of SWIPSS Transactions



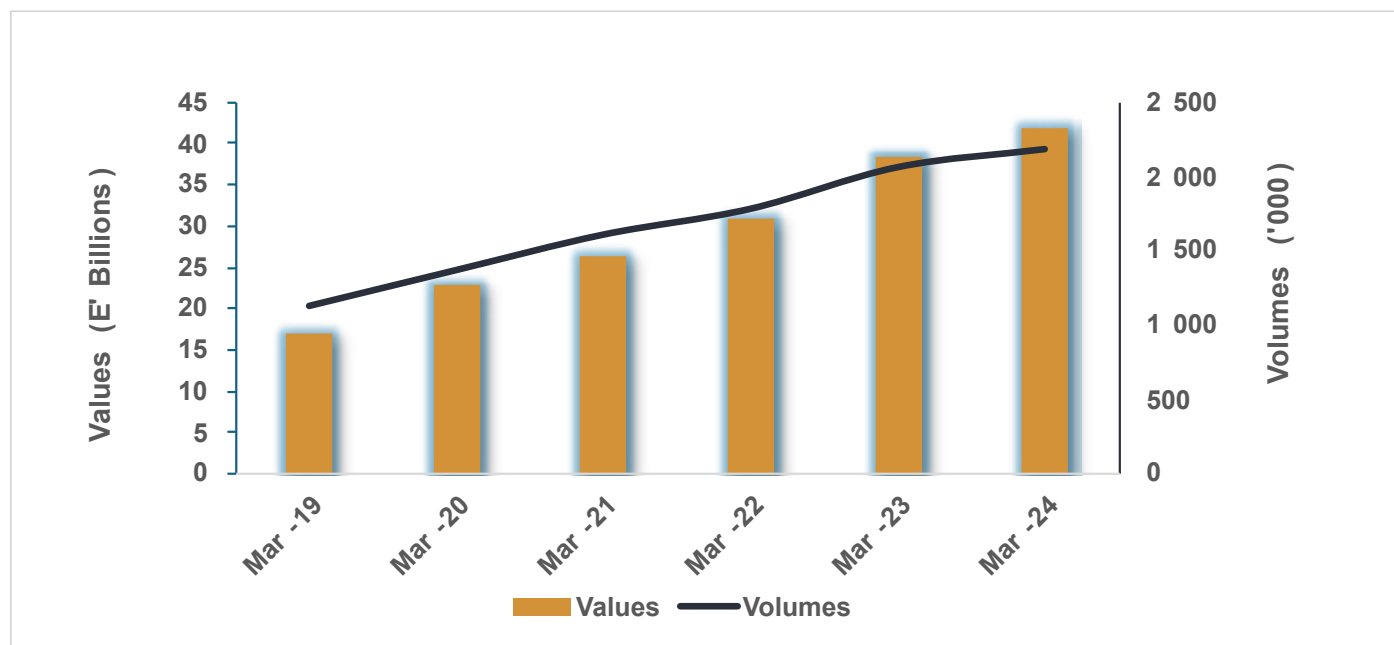
Source: Central Bank of Eswatini

8.3 Mitigating Risks from Disruption of SWIPSS

Given SWIPSS importance, the CBE undertakes regular risk assessment to prevent disruptions, focusing on network resilience and liquidity management.

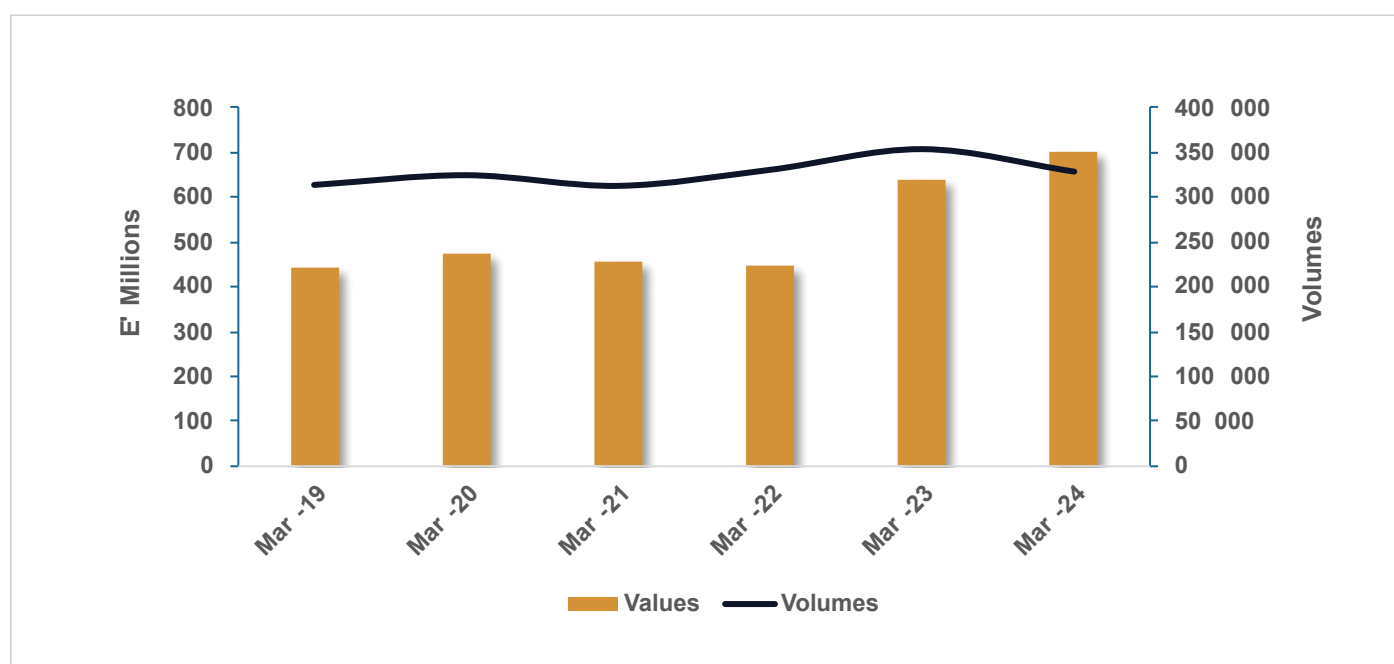
Enhanced oversight of commercial banks within the SWIPSS network is prioritized to uphold stability under tightening liquidity conditions.

Figure 8.2: Volumes and Values of Credit EFT Transactions



Source: Central Bank of Eswatini

Figure 8.3: Volumes and Values of Debit EFT Transactions



Source: Central Bank of Eswatini

8.4 Electronic Payment Systems

The adoption of electronic payment systems has surged, with point-of-sale (POS) transaction rising by 24.1 percent in value and 41.3 percent in volume, mainly driven by the recovery in economic activity, favorable policy environment, evolving consumer preferences.

The increased demand for cashless, convenient payment solutions continues to boost digital transactions, a trend anticipated to persist as competition among electronic money providers intensifies.

Table 8.1: Summary of activity in Eswatini Electronic Payment Systems

		Dec-21	Dec-22	Dec-23	Change (%)
	Number of active cards	311,969	474,824	478,899	0.9
Debit cards	Volume of payments (million)	20,812	26,457	19,228	-27.3
	Value of payments (SZL billion)	20.4	28.4	14.9	-47.5
ATMs & ADTs	Number of active ATMs & ADTs	368	328	300	-8.5
	Volume of payments	15,440	18,521	16,867	-8.9
Point-of-sale	Value of payments (SZL billion)	16.4	22.6	21.2	-6.2
	Volume (million)	5,372	7,936	11,210	41.3
(POS) Terminals	Value (SZL billion)	4.1	5.8	7.2	24.1
	Number of active POS	3,714	3,544	4,148	17.0
Commercial Banks	Number of Banks	4	4	5	1
	Number of Bank Branches	86	85	48	-43.5

Source: Central Bank of Eswatini

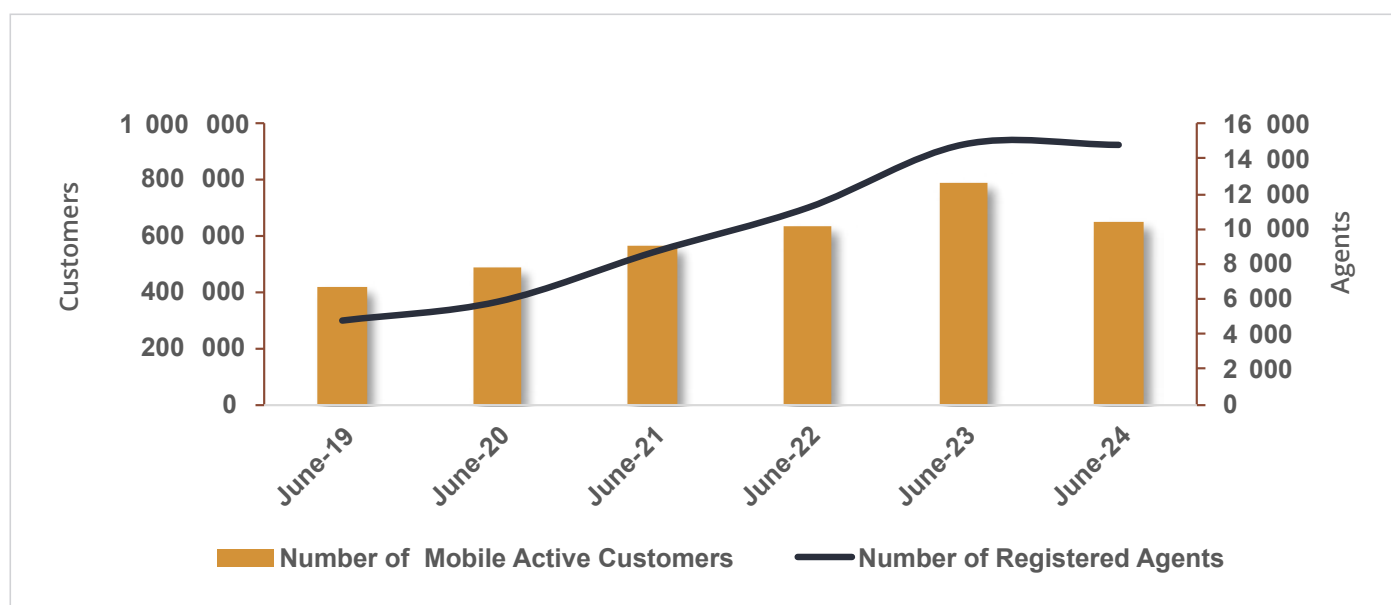
8.5 Mobile Money Payments

Mobile money services have grown steadily, despite a decrease in registered customers. The volume and value of mobile money transactions increased by 2.7 percent and 3.0 percent, respectively, during the period ending 30 June 2024. Escrow account balances, however, decreased by 18.4 percent. Increased innovation from telecommunication providers and increased competition suggests ongoing contributions to financial inclusion and deepening of the financial sector.

Cybersecurity and Digital Payment Risk

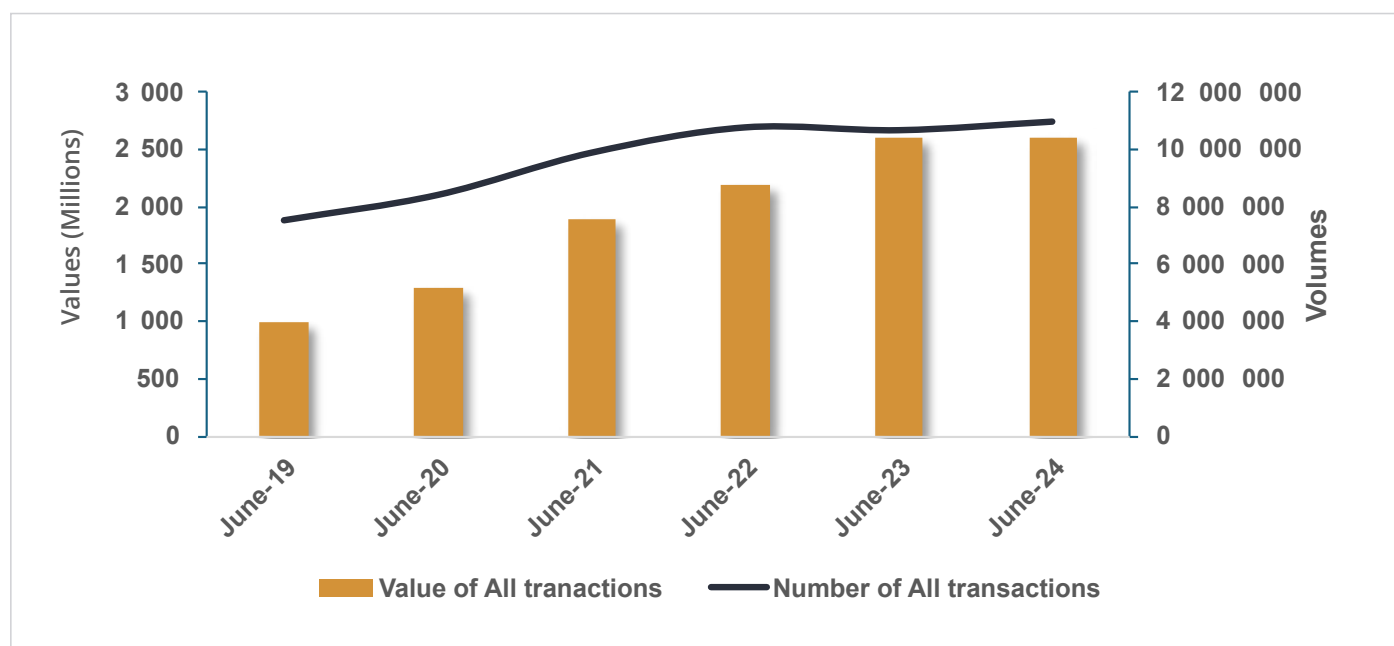
The growing reliance on digital platforms heightens cybersecurity risks. The CBE encourages prudent innovation in electronic banking while implementing safeguards under the National Payments System Act No. 5 of 2023 to mitigate cyber threats and promote robust governance across FMs.

Figure 8.4: Registered Agents and Customers

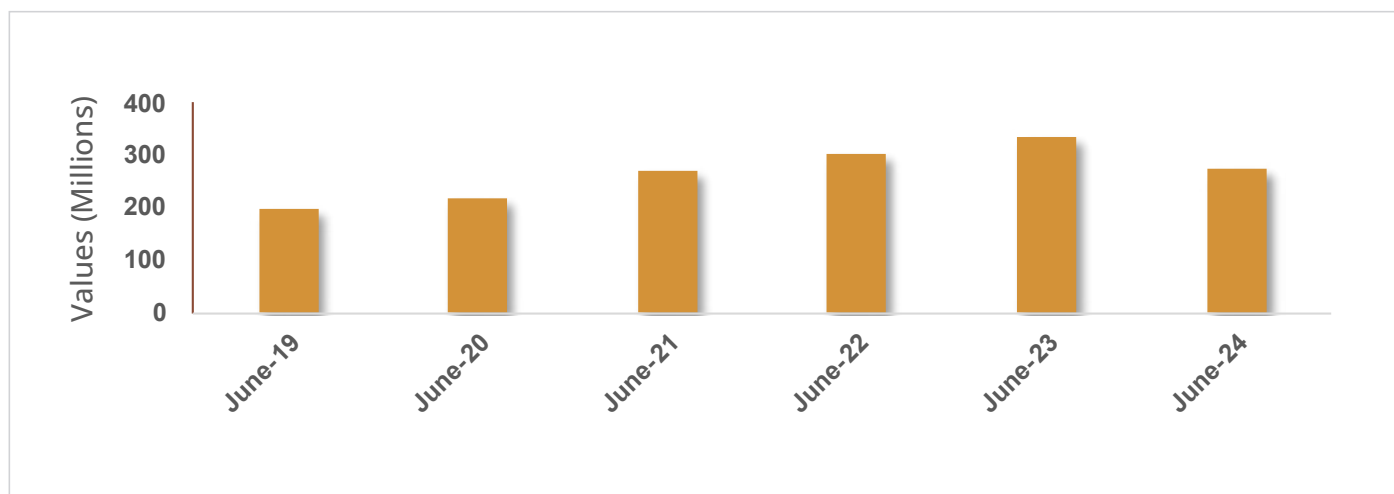


Source: Central Bank of Eswatini

Figure 8.5: Volume and Value of Mobile Money Transactions



Source: Central Bank of Eswatini

Figure 8.6: Escrow Account Balances

Source: Central Bank of Eswatini

APPENDICES

Table A9.1: Insurance Financial Soundness Indicators

	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2
Short-Term Insurance														
Risk (Reinsurance) Retention Ratio (%)	61.68	65.43	72.68	60.01	61.06	59.03	56.85	56.90	54.19	58.42	55.63	57.61	64.24	59.92
Claims (Loss) Ratio (%)	21.41	9.42	7.89	16.19	22.42	13.98	16.06	15.31	29.25	14.93	14.93	22.61	44.69	17.95
Capital-to-Assets-Ratio (%)	54.69	49.50	45.17	45.78	53.60	53.73	43.04	50.57	628.97	56.93	45.33	47.70	50.96	46.00
Solvency Ratio	2.21	1.98	1.82	1.84	2.16	2.16	1.76	2.02	0.21	2.32	1.83	1.91	2.04	1.79
ROA (%)	7.36	8.60	10.42	12.99	4.75	13.04	8.43	13.43	29.87	13.83	9.28	9.69	2.33	4.96
ROE (%)	13.45	17.38	23.07	28.37	8.87	24.27	19.57	26.56	4.75	24.29	20.48	20.31	4.58	10.77
Penetration Ratio (%)	0.3	0.7	0.6	1.2	0.2	0.8	1.0	1.3	0.2	0.8	1.1	1.4	0.2	0.7
Expense Ratio (%)	90.5	45.5	39.4	66.1	87.6	56.5	67.0	70.0	110.5	63.2	64.7	81.3	113.1	61.7
Combined Ratio (%)	111.9	55.0	47.3	82.3	110.0	70.4	83.1	85.3	139.7	78.1	79.6	103.9	157.8	79.6
Insurance Density	162.8	426.1	384.1	706.8	137.5	482.9	655.6	796.3	141.2	509.5	725.3	906.7	165.0	564.7
Long-Term Insurance														
Risk (Reinsurance) Retention Ratio (%)	92.1	90.7	92.4	92.5	92.2	93.9	93.1	92.9	94.1	93.8	93.4	92.6	91.6	84.9
Loss Ratio (%)	73.5	75.6	74.0	72.9	62.9	61.0	57.7	140.3	54.5	52.5	54.7	56.9	55.8	51.3
Capital-to-Assets-Ratio (%)	14.4	14.1	12.6	14.4	10.2	9.2	8.0	13.1	14.2	14.1	14.2	15.2	16.0	16.4
Solvency Ratio	1.17	1.14	1.14	1.17	1.11	1.10	1.09	1.15	1.17	1.16	1.17	1.18	1.19	1.20
ROA (%)	1.0	1.7	1.7	4.0	-4.3	-0.4	-0.5	3.2	1.3	2.4	3.2	5.0	1.0	2.4
ROE (%)	7.2	11.7	13.2	27.9	-42.6	-4.0	-5.8	24.3	9.0	16.7	22.3	32.7	6.4	14.7
Expense Ratio (%)	152.5	141.5	142.9	141.8	205.9	85.3	89.9	99.0	115.3	116.5	103.1	108.9	99.3	114.9
Combined Ratio (%)	226.0	217.1	216.9	214.7	268.8	146.4	147.6	239.4	169.8	169.0	157.8	165.8	155.1	166.2
Insurance Density	220.0	431.4	630.1	827.2	227.7	452.3	701.1	879.2	241.4	456.8	679.0	928.4	201.0	437.2
penetration ratio (%)	0.4	0.7	1.1	1.4	0.4	0.7	1.1	1.4	0.4	0.7	1.1	1.5	0.3	0.6
Total Insurance Industry														
Risk (Reinsurance) Retention Ratio (%)	79.2	78.1	85.0	77.5	80.5	75.9	75.6	75.8	79.4	75.2	73.9	75.3	79.3	70.8
Claims (Loss) Ratio (%)	51.3	42.7	49.0	46.8	47.7	36.7	37.6	80.9	45.2	32.7	34.2	39.9	50.8	32.5
Capital-to-Assets-Ratio (%)	21.6	21.1	18.6	20.0	17.5	18.7	14.8	20.8	27.0	23.1	20.7	21.6	22.6	22.7
Solvency Ratio	1.27	1.25	1.23	1.25	1.21	1.23	1.17	1.26	1.06	1.30	1.26	1.28	1.29	1.29
ROA (%)	2.2	3.0	3.3	5.6	-2.8	2.5	1.3	5.3	1.9	4.8	4.4	5.9	1.3	3.0
ROE (%)	10.0	14.4	17.7	28.1	-16.1	13.3	8.6	25.4	6.9	20.6	21.4	27.3	5.7	13.0
Penetration ratio (%)	0.64	1.43	1.70	2.56	0.58	1.48	2.15	2.65	0.61	1.53	2.22	2.91	0.46	1.27
Expense Ratio (%)	132	102	109	115	172	74	82	89	114	95	88	98	104	89
Combined Ratio (%)	183	144	158	162	220	110	119	170	159	127	122	138	155	122
Insurance Density	383	858	1,014	1,534	365	935	1,357	1,676	383	966	1,404	1,835	366	1,002

Table A9.2: Selected Quarterly Financial Soundness Indicators (percentage ratios)

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Regulatory Capital to risk-weighted assets	17.6	17.0	18.4	18.6	18.0	18.4	18.5	18.4	17.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	15.5	14.8	16.2	16.3	15.9	16.2	16.5	16.2	15.4
NPLs to Total Gross Loans	6.5	6.8	6.6	7.2	7.1	7.4	6.8	7.1	6.7
Return on Assets (ROA)	2.1	1.9	2.1	2.2	2.6	2.3	2.3	2.1	2.0
Return on Equity (ROE)	15.1	14.3	14.8	14.9	17.0	16.2	15.8	14.0	13.8

Table A9.3: Commercial Banks' Quarterly Financial Soundness Indicators (percentage ratios)

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Capital Adequacy									
Regulatory capital to risk-weighted assets	17.6	17.0	18.4	18.6	18.0	18.4	18.5	18.4	17.4
Regulatory tier 1 capital to risk-weighted assets	15.5	14.8	16.2	16.3	15.9	16.2	16.5	16.2	15.4
Leverage ratio	11.2	11.0	11.4	12.0	12.1	11.9	12.0	11.9	11.8
Asset Quality									
NPLs to total gross loans	6.5	6.8	6.6	7.2	7.1	7.4	6.8	7.1	6.7
NPLs to total deposits	4.5	4.8	4.6	5.7	5.7	5.5	5.0	6.0	5.5
Sectoral distribution of gross loans (%)									
Agriculture and forestry	10.0	8.6	8.8	9.3	8.6	8.0	7.6	8.1	8.0
Mining and quarrying	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing	5.6	5.2	6.7	6.7	6.8	8.2	8.6	8.4	8.6
Construction	4.6	4.8	4.0	3.6	3.2	3.0	3.2	3.2	2.7
Distribution and tourism	13.9	15.3	15.2	12.8	14.2	14.4	14.8	12.2	13.8
Transport and communications	6.9	6.7	6.4	6.8	6.8	7.0	6.9	7.5	7.2
Community social and personal services	2.7	3.1	2.5	2.3	2.3	2.3	2.2	2.2	2.3
Real estate	4.7	4.8	4.9	5.7	6.5	6.2	6.1	6.1	5.9
Other businesses (not elsewhere included)	4.2	4.6	4.6	4.8	5.6	5.2	5.8	6.3	7.1
Personal and household loans	43.2	42.8	42.8	42.9	41.2	41.4	40.1	40.4	39.2
Other	4.2	3.9	4.1	4.9	4.8	4.2	4.5	5.5	4.9
Earnings & profitability									
Return on assets	2.1	1.9	2.1	2.2	2.6	2.3	2.3	2.1	2.0

	Jun 22	Sep 23	Dec 22	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24
Return on equity	15.1	14.3	14.8	14.9	17.0	16.2	15.8	14.0	13.8
Net interest margin	5.4	5.5	5.7	6.8	7.1	6.8	6.6	7.4	6.5
Cost of deposits	-2.0	(2.3)	(2.6)	(4.3)	(4.4)	(4.3)	(4.1)	(4.9)	(4.2)
Cost to income	-75.3	(76.4)	(75.9)	(77.0)	(75.3)	(76.1)	(76.3)	(79.0)	(78.2)
Overheads to income	-54.6	(54.1)	(53.0)	(48.0)	(47.7)	(47.8)	(48.3)	(50.0)	(50.0)
Liquidity									
Liquid assets to total deposits	37.6	32.2	38.1	36.8	33.8	34.5	36.1	34.9	30.9
Total loans to total deposits	69.9	70.2	69.9	78.9	79.8	74.6	72.7	83.5	81.7
Market Sensitivity									
Foreign currency exposure to regulatory tier 1 capital	-18.0	(17.7)	(16.9)	(16.6)	(16.6)	(16.2)	(15.5)	(15.9)	(15.6)
Foreign currency loans to foreign currency deposits	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
Foreign currency assets to foreign currency liabilities	50.1	21.2	30.9	17.1	22.4	42.2	20.2	19.5	20.5

Table A9.4: Commercial Banks' Quarterly Balance Sheet

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
ASSETS (E '000)									
Cash & cash assets	474,908	480,558	706,267	508,878	488,356	587,187	679,547	619,908	622,901
Balances with CBE	2,893,758	1,859,647	2,692,058	2,029,965	1,953,502	2,485,743	3,024,321	2,105,096	1,999,435
Due from banks in Eswatini	2,043	1,583	2,040	2,040	1,894	1,894	2,040	4,224	4,572
Due from banks abroad	3,195,465	5,102,709	4,103,639	3,794,928	3,739,165	4,124,248	4,553,661	3,611,465	4,283,781
Government securities	4,282,307	4,297,246	4,615,940	4,379,164	4,017,303	4,003,841	4,250,167	4,072,856	3,883,969
Investments and other securities	794,789	751,530	679,144	406,273	539,980	889,141	489,391	389,359	433,408
Total gross loans & advances	14,183,594	14,440,676	14,666,131	14,771,908	15,210,250	15,271,074	15,983,449	16,196,959	17,153,357
LESS: Provisions	1,048,513	1,094,042	1,127,551	1,174,248	1,179,868	1,233,278	1,253,973	1,286,895	1,247,449
Net loans & advances	13,135,081	13,346,634	13,538,580	13,597,660	14,030,382	14,037,796	14,729,475	14,910,064	15,905,908
Net fixed assets	776,459	808,631	881,898	919,696	955,261	1,004,049	1,030,553	1,059,507	1,044,814
Other assets	562,724	652,843	496,299	728,017	558,630	631,108	626,910	735,461	705,850

	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24
TOTAL ASSETS	26,117,532	27,301,382	27,715,864	26,366,621	26,284,473	27,765,006	29,386,067	27,507,941	28,884,639
	LIABILITIES (E '000)								
Deposits	20,287,802	20,579,590	20,979,859	18,726,489	19,057,657	20,479,286	21,993,652	19,403,531	20,990,133
Due to banks in Eswatini	10,680	29,866	28,701	47,171	14,161	41,186	13,466	49,974	31,395
Due to banks abroad	993,378	1,899,071	1,854,486	2,600,943	2,098,039	1,921,077	2,136,263	2,456,719	2,336,215
Borrowings from CBE	-	-	-	-	-	-	-	-	-
Bills Payable	3,036	3,303	3,736	4,878	5,116	4,615	4,308	4,209	4,925
Other liabilities	1,045,309	965,271	856,624	942,995	1,050,117	1,190,441	941,317	1,388,866	1,256,480
TOTAL LIABILITIES	22,340,206	23,477,101	23,723,406	22,322,475	22,225,091	23,636,606	25,089,006	23,303,298	24,619,148
	CAPITAL (E '000)								
Paid-up capital	109,352	109,352	109,352	109,352	109,352	109,352	109,352	109,352	108,310
Share premium	15,423	15,423	15,423	15,423	15,423	15,423	15,423	15,423	15,423
Retained reserves	2,302,829	2,353,193	2,341,706	2,592,400	2,469,907	2,523,555	2,523,555	2,634,398	2,635,845
Other reserves/subordinated debt	1,027,764	945,256	947,264	1,037,082	1,023,497	1,023,497	1,015,611	1,066,824	1,106,557
Profit-loss (current year)	221,919	299,126	474,892	184,219	257,408	353,805	527,642	270,488	299,299
Total Shareholders' Funds	3,677,286	3,722,350	3,888,637	3,938,475	3,959,324	4,025,631	4,191,582	4,096,484	4,165,434
	OFF-BALANCE SHEET ITEMS (E '000)								
Letters of credit	-	-	-	-	-	-	-	303,196	-
Guarantees & performance bonds	252,036	231,222	268,388	589,633	282,162	284,430	306,002	2,453,354	394,348
Unused loans/overdrafts commitment	1,534,425	1,772,525	1,689,082	2,111,172	1,887,511	1,643,602	1,605,195	3,512,775	1,868,264
TOTAL OFF-BALANCE SHEET ITEMS	2,961,948	2,869,617	2,897,855	3,170,733	668,325	2,632,340	2,109,204		2,887,245

Source: Central Bank of Eswatini

Table A9.5: Commercial banks' quarterly income statement, year-on-year figures

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
INCOME (E '000)									
Interest income on advances	1,384,926	1,459,350	1,557,284	1,903,117	1,986,663	2,032,599	2,074,775	2,161,711	2,064,603
Interest income on Government securities	236,750	242,377	252,958	294,917	289,359	282,472	281,269	285,724	288,002
Interest income on deposits abroad	41,850	81,384	91,907	74,123	86,039	103,547	113,827	152,406	122,904
Interest income - others	154,975	148,234	157,216	218,683	232,202	249,214	266,128	292,542	210,821
Charges, fees and commissions	1,045,964	1,075,055	1,084,003	1,069,970	1,098,171	1,121,688	1,149,701	1,206,280	1,145,244
Foreign exchange income	34,677	35,448	36,224	52,984	54,794	56,482	57,973	58,302	51,653
Other income	62,219	57,093	68,149	78,708	58,176	53,630	71,778	4,234	39,329
TOTAL INCOME	2,961,361	3,098,941	3,247,741	3,692,502	3,805,405	3,899,632	4,015,452	4,161,200	3,922,556
EXPENSES (E '000)									
Interest expense on deposits	413,960	475,573	542,767	804,263	837,411	882,975	908,594	954,135	888,698
Other interest expenses	86,600	65,786	54,658	31,830	35,869	37,304	37,963	83,128	74,666
Provisions for bad debts	112,003	152,165	147,604	232,811	173,530	180,976	177,747	168,464	145,691
Salaries, wages, staff costs	728,685	745,618	761,987	759,814	810,856	817,810	851,809	908,520	870,598
Premises, depreciation, transport	72,960	73,760	73,035	80,904	85,140	81,638	84,561	97,655	82,375
Other expenses	814,561	855,909	886,414	933,231	920,769	965,241	1,001,922	1,074,520	1,007,233
TOTAL EXPENSES	2,228,769	2,368,811	2,466,466	2,842,853	2,863,574	2,965,943	3,062,597	3,286,422	3,069,261
Net profit before tax	732,592	730,130	781,275	849,649	941,830	933,689	952,855	874,778	853,295
LESS: Corporation tax	178,293	198,717	206,736	261,179	270,418	283,260	291,437	299,776	278,400
NET PROFIT AFTER TAX	554,299	531,413	574,539	588,470	671,412	650,429	661,418	575,003	574,895

Source: Central Bank of Eswatini



STRESS-TESTING FOR ESWATINI BANKING SECTOR

The stress tests focused on two main potential sources of vulnerability for the Eswatini banking sector, namely credit and liquidity risks, which are considered the main risks of the banking sector.

Credit Risk

Credit shocks were conducted to assess the effect that a continued deterioration in asset quality would have on banks' capital. The test applied a uniform shock to the baseline level of performing loans such that a proportion of the performing loans becomes non-performing. The results show that 22.0 percent of performing loans would have to migrate to non-performing status for the first bank's capital adequacy ratio to fall below the 8.0 percent minimum regulatory requirement. This shows that the system's resilience to credit risk deteriorated when compared to the 24.7 percent reported in the previous year.

Table A9.6: Summary of stress test results for loans migration

	CAR (%)	Tier 1 capital (E' billion)	NPL ratio (%)	Number of undercapitalized banks
Baseline scenario	17.1	4.2	6.7	0
Shock	Key Indicators	Jun-23		Jun-24
Reduction in performing loans that fail the first bank	Change in NPL ratio that causes first bank to breach minimum CAR (%)	24.7		22.0
	CAR (%)	10.6		10.4
	NPL ratio (%)	30.1		27.3
	Tier 1 capital (E billion)	2.2		2.3
	No. of undercapitalized banks	1		1

Source: Central Bank of Eswatini

The capital adequacy and NPL ratios for the banking sector following the shock are 10.2 percent and 32.1 percent respectively. The resilience of the banking sector to this shock could be attributed to the already high levels of capital held by banks.

Default by the largest borrowers

The capital adequacy and NPL ratios for the banking sector following the shock are 10.2 percent and 32.1 percent respectively. The resilience of the banking sector to this shock could be attributed to the already high levels of capital held by banks.

Assuming default by the largest borrowers and a 100.0 percent provisioning requirement (the 'loss' category for loans), the results showed that the 8.0 percent minimum regulatory capital adequacy requirement is breached by the first bank after default by the top five largest borrowers.

Table A9.7 Default by largest borrowers

Key Indicators	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
CAR (%)	12.2	10.4	10.1	11.7	11.3
Tier 1 capital (E billion)	2.5	2.1	2.1	2.5	2.5
No. of undercapitalized banks	1	1	1	1	1
No. of large exposures	8	5	5	4	4

Source: Central Bank of Eswatini

Liquidity Risk: Simulated Bank Run

The Bank conducted a stress test for liquidity, in which a simple bank run was simulated. The resilience of banks to such a risk from a liquidity perspective was assessed by the number of days banking institutions would be able to withstand a drain on its liquidity without having to resort to external support. The results revealed that liquid assets of the first bank would be depleted after eight (8) days of distress, assuming a daily withdrawal rate of 5.0 percent on demand and savings deposits and 2.5 percent on term deposits.

Table A9.8: Summary of stress test results for bank run

Key Indicators	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Liquid assets to total deposits (%)	1.2	9.0	10.8	6.3	7.3
Reduction in total deposits (%)	33.0	30.5	28.3	30.5	25.4
No. days to deplete liquid assets	10	9	9	10	8
No. of banks breaching the regulatory liquidity ratio	4	4	3	3	4

Source: Central Bank of Eswatini

Sudden withdrawal by systemic largest depositor

Eswatini banking system's largest depositor has holdings with two banks. The depositor may decide to withdraw from both banks and invest elsewhere, which may affect the banks' liquidity positions. The results show that one bank will breach the regulatory minimum liquidity requirement if this scenario unfolds. In addition, the banking sector's average liquidity ratio also fell to 24.7 percent from 30.9 percent. This emphasizes the need for banks to manage funding concentrations.

Table A9.9: Sudden withdrawal by systemic largest depositor

Sudden withdrawal by largest depositor	CAR	Tier 1 capital (in E. '000)	NPLs	Liquid assets /total deposits
Pre-Shock	17.1	4 233.5	1 154.4	30.9
Post Shock	17.1	4 233.5	1 154.4	24.7






Source: Central Bank of Eswatini

Central Bank of Eswatini

Financial Stability Review

June 2024

Contact

 Umntsholi Building, Mahlokohla Street,
 P.O. Box 546, Mbabane, Eswatini
 (+268) 2408 2000
 (+268) 2404 7865
 info@centralbank.org.sz

