



TECHNICAL ASSISTANCE REPORT

KINGDOM OF ESWATINI

Financial Sector Stability Review

April 2024

Prepared By

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GLOSSARY

AFS	IMF AFRITAC South
ATI	IMF Africa Training Institute
BCP	Basel Core Principles for Effective Banking Supervision
BCBS	Basel Committee for Banking Supervision
BIS	Bank for International Settlements
BOP	Balance of Payments
BS	Building Society
BSA	Balance Sheet Approach
CBDC	Central Bank Digital Currency
CBE	Central Bank of Eswatini
CIs	Credit Institutions
CMIIs	Capital Market Intermediaries
CSIs	Credit and savings institutions
DICP	Deposit Insurance Core Principles
DIS	Deposit Insurance System
DL	Domestic Location
DPF	Deposit Protection Fund
DT	Deposit Taker
E	Eswatini lilangeni (plural: emalangeni)
ECL	Expected Credit Loss
ELA	Emergency Liquidity Assistance
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
ESS	External Sector Statistics
FCMB	Financial Crisis Management Binder
FIA	Financial Institutions Act
FIB	Financial Institutions Bill
FMIIs	Financial Market Infrastructures
FSB	Financial Stability Board
FSIs	Financial Soundness Indicators
FSP	Financial Stability Panel
FSR	Financial Stability Report
FSRA	Financial Services Regulatory Authority

FSSR	Financial Sector Stability Review
FSU	CBE Financial Stability Unit
GFS	Government Finance Statistics
HHs	Households
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
ICP	Insurance Core Principles
IFRS	International Financial Reporting Standards
IFS	International Financial Statistics
IIP	International Investment Position
IRF	Insurance and Retirement Funds
KfW	KfW Bankengruppe
MCM	Monetary and Capital Markets Department
MMF	Money Market Funds
MFS	Monetary and Financial Statistics
MOF	Ministry of Finance
MoU	Memorandum of Understanding
NBFI	Nonbank Financial Institution
NFC	Nonfinancial Corporation
NPL	Non-performing Loan
ODC	Other Depository Corporation
OFC	Other Financial Corporation
PSD	PSD Public Sector Debt
RF	Retirement Fund
SACCO	Saving and Credit Cooperative Organization
SACU	South African Customs Union
SARB	South African Reserve Bank
SBS	Swaziland Building Society
SREP	Supervisory Review and Evaluation Process
SR/ SRF	Standardized Report/ Standardized Report Form
TA	Technical Assistance
TARM	Technical Assistance Roadmap
USD	United States Dollar

PREFACE

At the request of the Central Bank of Eswatini (CBE), an IMF Financial Sector Stability Review (FSSR) was conducted virtually and in-person between April 26 and July 18, 2023. The main mission visited Mbabane, Kingdom of Eswatini during the period of July 4 to 18, 2023. The mission was led by Ms. Anastasiya Marina of the Monetary and Capital Markets Department (MCM) and included Mr. Phousnith Khay (Statistics Department, STA), and Messrs. David Farelus, Vern McKinley, Ravi Mohan Periyakavil, Rodolfo Wehrhahn (all MCM short-term experts).

Ms. Marina Moretti, Deputy Director (MCM) joined the mission for the closing meetings.

The scope of the main mission, which was agreed with the CBE during the scoping visit of April 26-28, 2023, comprised of financial stability and systemic risk monitoring, and macroprudential frameworks and tools; financial safety net and crisis management; supervision and regulation of deposit-taking financial institutions as well as insurance and retirement funds; and financial sector statistics.

The main mission met with the Minister of Finance, CBE Governor and Deputy Governor, CEO and teams of the Financials Services Regulatory Authority (FSRA) as well as (virtually) with supervisors of the South African Reserve Bank (SARB). The main mission also met with senior executives from public and private sector financial institutions and companies; and liaised with the World Bank prior and post both the scoping and main missions.

The FSSR diagnostic team wishes to thank the staff of the CBE and FSRA for their excellent collaboration, productive discussions, and warm hospitality.

EXECUTIVE SUMMARY

Eswatini’s financial system is dominated by nonbanks—a source of most financial stability risks and vulnerabilities—whose oversight is in the most need of improvement. Nonbank Financial Institutions (NBFIs) account for 78 percent of financial sector assets or 116 percent of GDP. The diagnostic identified NBFIs to be both a source of most risks and vulnerabilities as well as the priority area for improvements in the oversight framework, starting with better coordination and exchange of data between the supervisory authorities.

Reforms to the financial oversight architecture are ongoing. Currently, the Central Bank of Eswatini (CBE) supervises banks and the Financial Services Regulatory Authority (FSRA)—under the Ministry of Finance (MOF)—oversees NBFIs. The government has announced that it plans to integrate financial sector oversight responsibilities under the CBE, but progress has been limited. Work is underway to establish a deposit insurance scheme (within the CBE) and to strengthen other safety net components (resolution, early intervention, and emergency liquidity assistance frameworks). The CBE has also taken important steps to build financial stability and macroprudential policy and frameworks, but uncertainty remains around their completion. As institutional arrangements evolve, the CBE and FSRA should continue to enhance and prioritize their coordination on financial stability issues by focusing on how best to capture and preemptively address risks to financial stability.

Against the backdrop of tightening global financial conditions and continued near-term economic recovery, household indebtedness and sovereign-financial sector nexus warrant close monitoring. While banks appear liquid and well-capitalized, NPLs are rising and under-provisioned. Deposit-taking NBFIs are weaker than banks in terms of NPLs, provisions, and capital. There is anecdotal evidence that household indebtedness is increasingly affecting repayment capacity. Additionally, government securities account for 10 percent of financial sector assets, and this exposure—coupled with the government’s dominance in NBFIs—could transmit fiscal shocks to the financial system.

Addressing emerging vulnerabilities will require expediting the passage of outstanding financial sector laws and regulations. Amendments to financial sector laws and regulations, which IMF teams have helped prepare under the previous TA, appear stalled. Expediting their passage should be a priority for the next parliamentary session. The mission advised the authorities to present the amendments to existing acts and new bills as a single package to the Cabinet and Parliament after the handover of legislative and administrative powers and respective priority-setting are completed in follow-up to the 2023 elections, expected early 2024.

While Eswatini supervisors have strengthened their capacity through implementation of previous TA recommendations, further critical improvements are needed. The financial supervisors have put in practice many previous TA recommendations, especially Basel II implementation and supervision of NBFIs. Areas for further improvements include: (i) strengthening bank corporate governance and risk management practices; (ii) completing the conversion of the largest building society into a bank; (iii) strengthening supervision of deposit

taking NBFIs and enhancing data quality; (iv) strengthening NBFIs' corporate governance, risk management, internal controls, and compliance functions; and (v) enhancing NBFi statistics.

This diagnostic supports a program of follow-up technical assistance (TA). In consultation with financial stability stakeholders, the mission developed a sequenced TA roadmap to assist the authorities bridge identified capacity and data gaps (Section III). Key recommendations on critical reforms in the five diagnostic areas (Table 1) include the following:

- (i) ***Financial stability and systemic risk monitoring, and macroprudential frameworks and tools, including stress testing:*** Undertaking a stocktaking of data availability, especially in NBFIs; developing a Risk Dashboard; overhauling the stress-testing framework; and developing D-SIFI designation criteria, starting with banks and extending it to NBFIs.
- (ii) ***Financial safety net and crisis management:*** Running financial projections for the Deposit Protection Fund; developing protocols for an interagency crisis management panel; finalizing emergency liquidity assistance procedures; and updating the CBE-SARB MoU with provisions for recovery and resolution planning and crisis management.
- (iii) ***Regulation and supervision of banks and deposit-taking nonbanks:*** Advancing the implementation of Basel requirements, including those for bank liquidity and Pillar 2; advancing banks' corporate governance reforms; and strengthening the regulation and supervision of deposit-taking NBFIs.
- (iv) ***Regulation and supervision of insurance and retirement funds (IRFs):*** Enhancing the enforcement of IRF regulations; developing a risk-based supervision framework with automated supervisory tools; and introducing a risk-based solvency regime for insurers.
- (v) ***Financial, external, and government sector statistics:*** Improving source data for other financial corporations (OFCs); compiling monetary and financial statistics (MFS) and financial soundness indicators for OFCs and deposit-takers; expanding the coverage of MFS for Other Depository Corporations to include deposit-taking NBFIs; and improving the international investment position statistics and government finance statistics.

The diagnostic also identified six other areas for the authorities to continue working on, independent of the FSSR process: (i) capacity building of the CBE Board; (ii) ELA; (iii) liquidity forecasting and management; (iv) banks' governance reforms and the licensing framework for banks; (v) FMIs, payments, remittances, CBDC; and (vi) financial sector development, including capital markets, financial inclusion, gender, and climate. The authorities are also advised to keep upskilling the bank and NBFi supervisors in developments in the international standards and good practices as well as in emerging risks e.g., cyber, crypto, and climate risks. Examples of methods to strengthen supervisory skills include short-term secondments to regional supervisors; supervisory training at AFS and Africa Training Institute (ATI); and self-study through the tutorials of BIS Financial Stability Institute Connect.

Table 1. Eswatini FSSR: Key Recommendations

Recommendations¹	Responsible Agency	Time Frame²
Immediate legislative reforms, institutional coordination, and oversight capacity building		
Following the finalization of expected changes in the regulatory architecture, prepare amendments to the existing acts and new bills as a single package for the approval and adoption by the incoming Government and Parliament (¶24, Tables 6 and 7)	CBE-FSRA	ST
Coordinate on financial stability and financial sector oversight timely and effectively, including on the project management for the implementation of the TARM (¶25,27, Table 7)	CBE-FSRA	ST
Build supervisory capacity in oversight and enforcement of market conduct in capital market intermediaries and credit institutions (¶15, Box 2, Table 7)	FSRA	ST
Enhance NBFi offsite surveillance and forward-looking assessments of risks (¶27-29, 62-63, Table 8)	CBE-FSRA	ST
Financial stability, macroprudential policy frameworks, and systemic risk monitoring		
Review and augment staffing of the CBE FSU (¶28)	CBE	ST
Undertake a thorough stocktaking of data availability, especially in NBFIs (¶29)	CBE-FSRA	ST
Develop the criteria guiding decisions on D-SIFI designation (¶30)	CBE	MT
Develop a Risk Dashboard and overhaul the stress-testing framework (¶29,31)	CBE	MT-LT
Financial Safety Net and Crisis Management		
Run financial projections and scenarios for the DPF (¶45)	CBE	ST
Develop protocols for an interagency crisis management panel (¶32,34)	CBE	MT
Finalize procedures for emergency liquidity assistance (¶38,39)	CBE	ST
Update the CBE-SARB MoU with provisions for recovery and resolution planning, and crisis management (¶5a,35)	CBE	MT
Supervision and regulation of deposit-taking financial institutions		
Expedite the pending conversion of a building society into a bank (¶23,65)	MOF	ST
Advance the implementation of Pillar 2 in bank supervision (¶23,52)	CBE	MT
Advance the banks' corporate governance reforms (¶23,26,58)	CBE	ST
Strengthen regulation and supervision of deposit-taking NBFIs (¶23,61-62,64,66)	FSRA	ST
Implement bank liquidity requirements of Basel III in a proportional manner (¶13,53)	CBE	MT
Supervision and regulation of insurance and retirement funds		
Initiate without delay the supervisory intervention of the beneficiary fund that left orphans without funds, find a financial solution to cover the significant losses (¶15,75, Box 2)	MOF-FSRA	ST
Enhance enforcement of IRF regulatory compliance (¶67,75-77)	MOF-FSRA	MT
Develop IRF risk-based supervision framework with automated supervisory tools (¶68-69)	FSRA	MT
Introduce a risk-based solvency regime, adequate to market conditions for insurers (¶70)	FSRA	MT
Financial, External, and Government Sector Statistics		
Improve source data for other financial corporations (OFCs) and compile MFS and FSIs for OFCs based on the relevant IMF Manual/Guides (Annex I, ¶8-11)	CBE-FSRA	ST
Compile additional FSIs for deposit takers based on the 2019 FSIs Guide (Annex I, ¶4)	CBE-FSRA	MT
Expand the coverage of MFS for other depository corporations to include deposit taking NBFIs (Annex I, ¶6)	CBE	MT
Improve international investment position and government finance statistics to increase the completeness of the BSA matrix and its usefulness as an analytical tool (Annex I, ¶17-18)	CBE-MOF	MT
¹ This table summarizes recommendations from Table 8. TA Roadmap (TARM), which were assigned a high priority. ² Time frame: ST – short-term, <6 months; MT – medium-term, <18 months; LT – long-term, <30 months		

I. INTRODUCTION

A. Scope of Work

1. **This report was prepared as part of the main FSSR mission which was conducted remotely and in-person during July 4-18, 2023.** The mission held scoping discussions with the Central Bank of Eswatini (CBE) and Financial Services Regulatory Authority (FSRA) during the visit on April 26-28, 2023. Based on this agreed scope of work, the main FSSR mission conducted a broad diagnostic of key segments of the financial system and proposed a TARM to support the efforts of the authorities to address key gaps and vulnerabilities in the Eswatini financial system. The topics covered in the diagnostic review are financial stability and systemic risk monitoring, and macroprudential frameworks and tools; financial safety net and crisis management; supervision and regulation of deposit-taking financial institutions as well as insurance and retirement funds; and financial sector statistics.

2. **The diagnostic review was guided by international standards and good practices and was targeted to the specific circumstances of the Kingdom of Eswatini.** The authorities' capacity in financial stability analysis, macroprudential frameworks, and systemic risk monitoring, including stress testing, was guided by the Basel Committee on Banking Supervision (BCBS) Stress Testing Principles (2018) and good international practices. The Financial Stability Board's Key Attributes of Effective Resolution Regimes and the International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems formed the basis for the evaluation of the authorities' crisis management capacity. The evaluation of the authorities' capacity in supervision and regulation of deposit taking financial institutions was guided by the Basel Core Principles for Effective Banking Supervision. The evaluation of the authorities' capacity in supervision and regulation of insurance and retirement funds was guided by the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS) and the Principles of Private Pension supervision of the International Organization of Pension Supervisors. The evaluation of the authorities' capacity and data gaps in financial sector statistics was guided by the IMF's relevant statistical manual and guides.

B. Overview of the Financial System

3. **Eswatini has a relatively large financial sector, dominated by nonbanks (Figure 1).** The total assets of Eswatini's financial system are equivalent to about 150 percent of GDP. NBFIs account for 78 percent of financial sector assets or 116 percent of GDP. Over the past decade, the asset share of NBFIs has steadily increased while commercial banks' assets have been flat as a share of GDP.

4. **The largest NBFIs segment is retirement funds, which is dominated by the state and closely interlinked with capital markets intermediaries (CMIs).** Retirement funds account for 36 percent of financial system assets or 53 percent of GDP. The segment is dominated by the state—more than 80 percent of retirement fund assets are held by the two state-owned pension

funds. Furthermore, retirement funds are strongly interlinked with CMIs—about 70 percent of the assets managed by CMIs belong to retirement funds.

5. Eswatini financial institutions are diverse in type and number, especially NBFIs, and licensed and supervised by two agencies (Table 2).

- a. Banks include three South African bank subsidiaries and one state-owned domestic bank that are licensed and supervised by the CBE. The three South African subsidiaries are required to meet the supervisory and regulatory requirements of the South African Reserve Bank (SARB) for South African banks. The CBE has a Memorandum of Understanding (MoU) for supervision purposes with the SARB. Furthermore, the CBE is active in the supervisory colleges that are convened by the SARB every two years. The SARB MoU does not require the subsidiaries of the three South African banks to develop recovery and resolution plans.
- b. The Financial Services Regulatory Authority (FSRA)—situated under the MOF—oversees NBFIs. Over 500 NBFIs include:
 - Credit and savings institutions (CSIs) such as building societies, savings and credit cooperative organizations (SACCOs), and credit institutions (micro-credit and micro-finance companies);
 - Capital markets intermediaries (CMIs) such as asset management firms, investment funds, and investment advisors; and
 - Insurance and retirement funds (IRFs) such as life and non-life insurance firms, insurance brokers, and different types of pension funds and IRF administrators.

6. Financial markets are shallow and dominated by government securities (Table 3).

The market capitalization of the Eswatini Stock Exchange (ESE) and the volume of corporate debt securities' outstanding have been broadly flat at a low level since 2015. Government securities include government bonds traded and T-Bills, private placements, and promissory notes placed through the CBE.

7. In the exchange arrangements and monetary policy, Eswatini is closely interlinked with South Africa. The currency of Eswatini is the Eswatini lilangeni (plural: emalangeni). The exchange rate arrangement is a peg with the South African rand, which is also legal tender.

Table 2. Eswatini: Licensed Financial Entities

Financial sector segment	Type of Licensed Entity	Number of Licensed Entities	Market Share ¹
Commercial banks, licensed by the CBE		5²	
	- Government owned	1	10%
	- South African bank subsidiaries	3	35%, 30%, and 25%
	- Farmers Bank (Pty) Ltd. ³	1	
NBFIs and supporting entities, licensed by the FSRA		511	
Credit and Savings Institutions	- Savings and Credit Cooperatives (SACCOs)	62	90% by 10 SACCOs
	- Building Societies (BSs)	2	93.7% and 6.3%
	- Other nonbank credit institutions (CIs)	135	80% by 2 CIs
	- Debt counsellors	1	
Insurance	- Short-term insurers	6	60% by top insurer
	- Long-term insurers	7	58% by 2 insurers
	- Composite insurers	1	
	- Reinsurance firms	2	
	- Insurance brokers	34	
	- Micro-insurers	2	
	- Medical Schemes	3	
	- Corporate agents	35	
	- Individual agents	107	
Retirement Funds	- Local retirement funds:		84% by 4 statutory funds
	-----Standalone funds	40	8% by 12 funds
	-----Umbrella funds	14	6% by 6 funds
	- Beneficiary funds	3	
	- Foreign retirement funds	20	
	- Fund administrators	8	
Capital Markets Intermediaries (CMIs)	- Investment advisors	12	43% by top advisor
	- Collective investment scheme managers	5	88% by 2 managers
	- Securities brokers	1	
	- Trustees	3	
	- Exempt dealers	1	
Financial Markets Infrastructures (FMIs)		6	
Under CBE	- RTGS (SWIPSS)	1	
	- Swaziland Automated Electronic Clearing House (SAECH)	1	
	- Central Securities Depository	1	
Under FSRA	- Credit Bureaus	2	
	- Stock Exchange	1	

Source: Annual reports of banks, CBE, FSRA Quarterly Statistical Bulletin 2022 Q4, IMF staff estimates.

¹ In gross written premiums for insurers, assets under management/ advisory for CMIs, total assets for the rest.

² There are 39 branches that constitute a footprint of the domestic banks and foreign bank subsidiaries.

³ The CBE granted Farmers Bank (Pty) Ltd. the commercial banking license in 2018 but revoked it in 2020. The bank appealed to the MOF, who in turn ruled to reinstate the license in 2021. The bank is licensed but is undergoing restructuring, it has not started its operations yet.

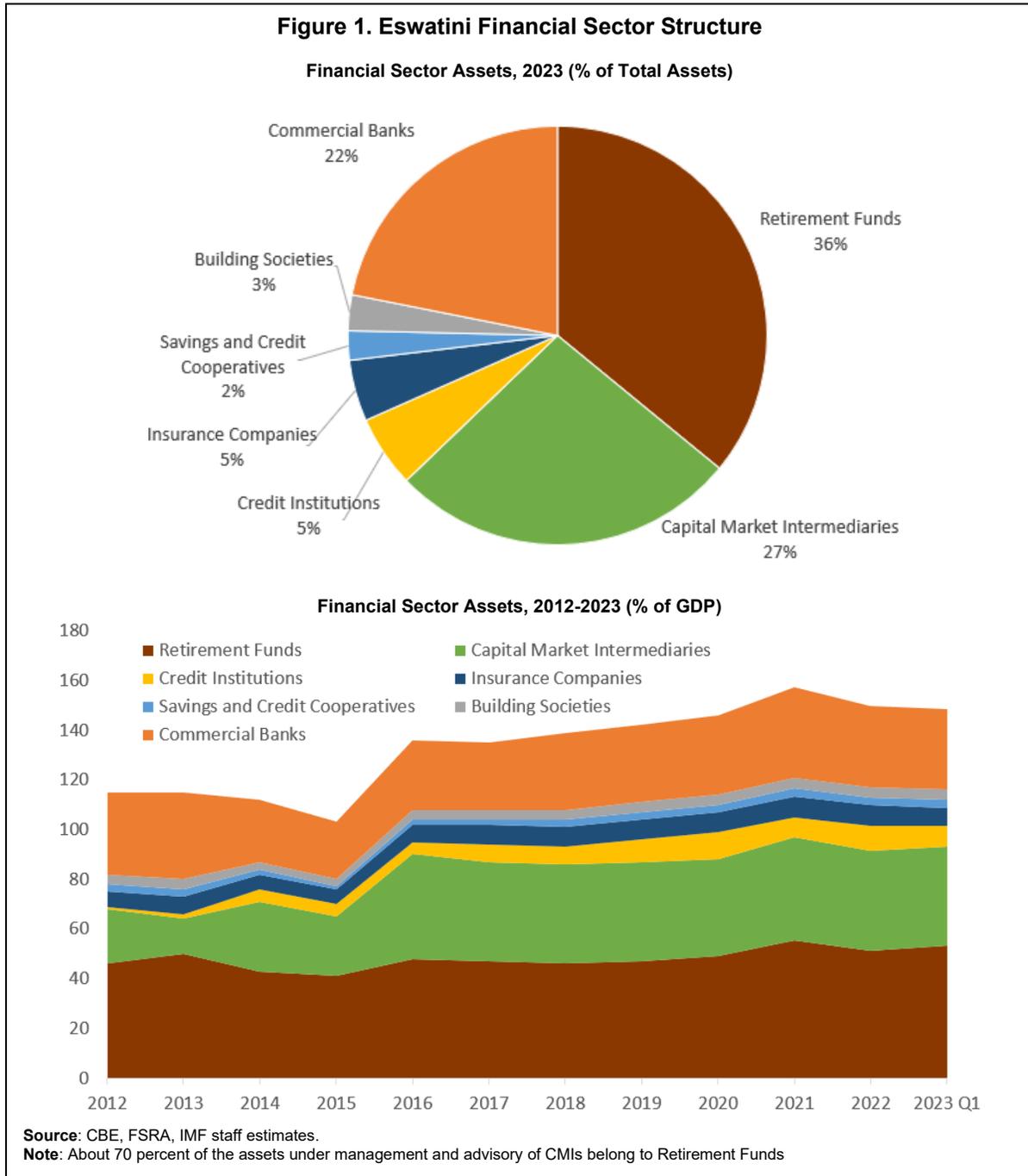


Table 3. Eswatini Financial Markets

	In percent of GDP								
	2015	2016	2017	2018	2019	2020	2021	2022	2023Q2
Outstanding debt securities	7	9	12	16	18	19	21	21	20
---Government	6	8	10	14	16	19	19	19	18
---Corporates	1	1	2	2	2	2	2	2	2
Stock market capitalization	5	6	6	6	6	6	6	6	5

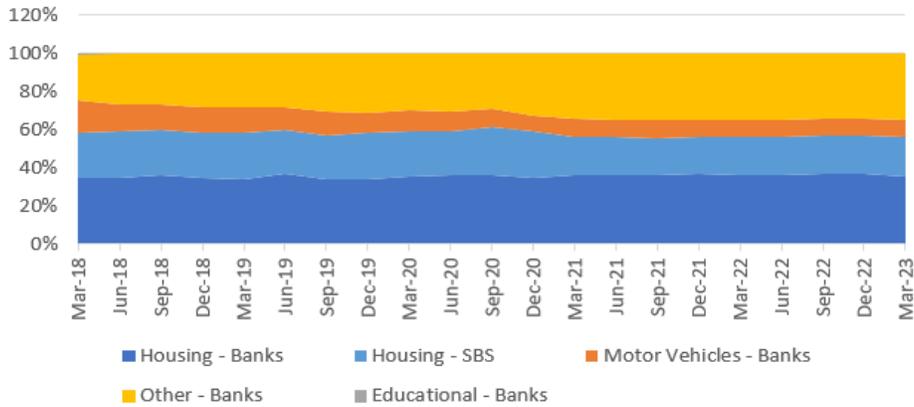
Source: FSRA, IMF staff estimates

C. Macrofinancial Risks and Vulnerabilities

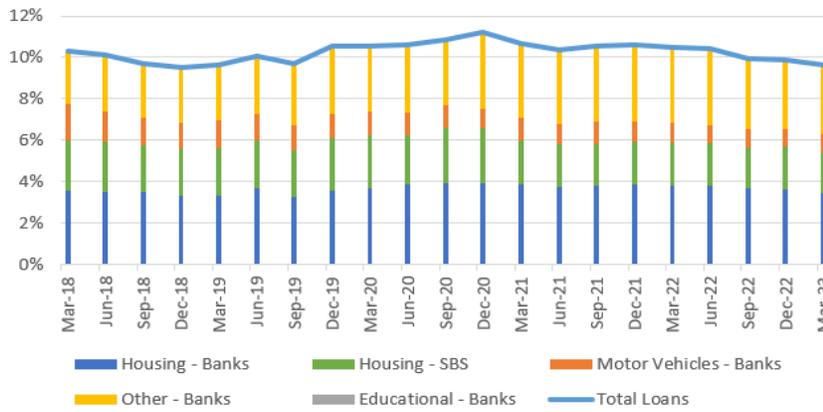
8. **The near-term economic outlook points to a continued recovery but downside risks remain.** Real GDP is projected to grow by 3.2 percent in 2023 and inflation to stabilize at around 5–6 percent. Downside risks stem from ongoing economic challenges in South Africa; the prospective impact of El Nino on agricultural output, food prices, and food security; the dampening effects of high inflation on disposable income; and the impact of a high interest rate environment on new investments, corporate balances sheets (via higher debt service), and in turn higher non-performing loans (NPLs) in financial institutions.
9. **Important systemic risks arise from the heavy dependence on South Africa.** Revenue transfers from the Southern African Customs Union (SACU) are an essential part of fiscal income, and Eswatini is heavily dependent on South Africa as its main trading partner. The peg of the lilangeni to the rand makes Eswatini vulnerable to exchange rate fluctuations of the rand. The presence of three large South African commercial banks further increases dependence on South Africa. Ongoing difficulties with power generation and load shedding, volatile commodity prices, and a challenging external environment have contributed to South Africa’s weaker growth performance in the recent period, with important spillover risks to Eswatini.
10. **Financial conditions have been substantially tightened since 2022.** Following the tightening cycle of the SARB, the CBE raised its discount rate by a cumulative 400 basis points, reaching 7.75 percent in May 2023. The tightening was in response to an uptick in inflation (6.1 percent in April 2023), driven mainly by housing and utilities prices.
11. **As interest rates are rising, household vulnerabilities could pose risks to financial stability.** As loans at flexible interest rates dominate, households are seeing their interest payments increase. This could pose risks to financial stability as households reduce consumption, depressing GDP growth. The down pressure on the economic activity, coupled with a continuing rise in interest rates, could result in loan defaults, weakening lenders. While the four commercial banks do not yet show a decline in household credit quality, the relatively higher level of NPLs (mostly housing loans) at Swaziland Building Society (SBS) is of concern (Figure 2). Anecdotal evidence obtained through interviews of market participants also indicates that HHs may be using non-collateralized borrowing from NBFIs, such as micro credit and micro finance companies, to meet their increased bank interest payments. To more accurately assess risks to financial stability from household vulnerabilities, the analysis should be expanded to include household lending data from all NBFIs and closer monitoring of household NPLs across the financial system, especially housing and non-collateralized loans.

Figure 2. Eswatini Household Loans – Banks and SBS

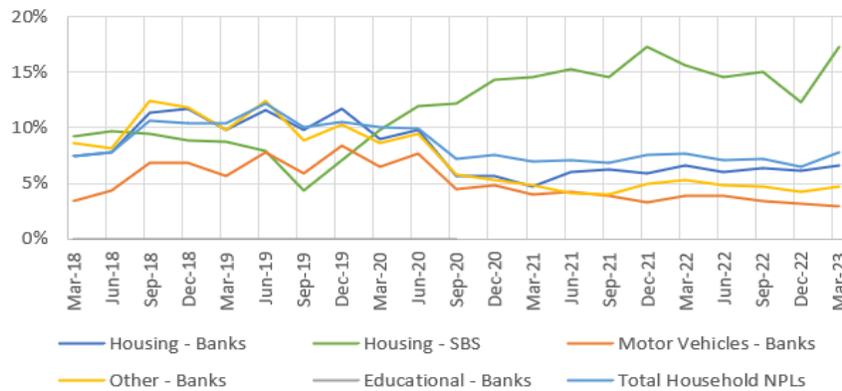
Household Loans by Sector
in % of Total Household Loans



Total Household Loans
in % of GDP



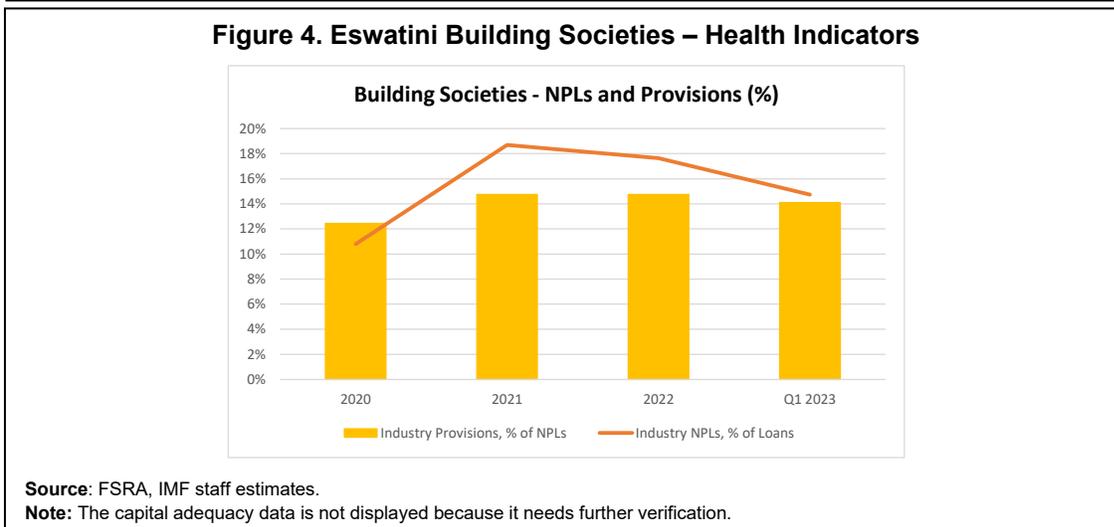
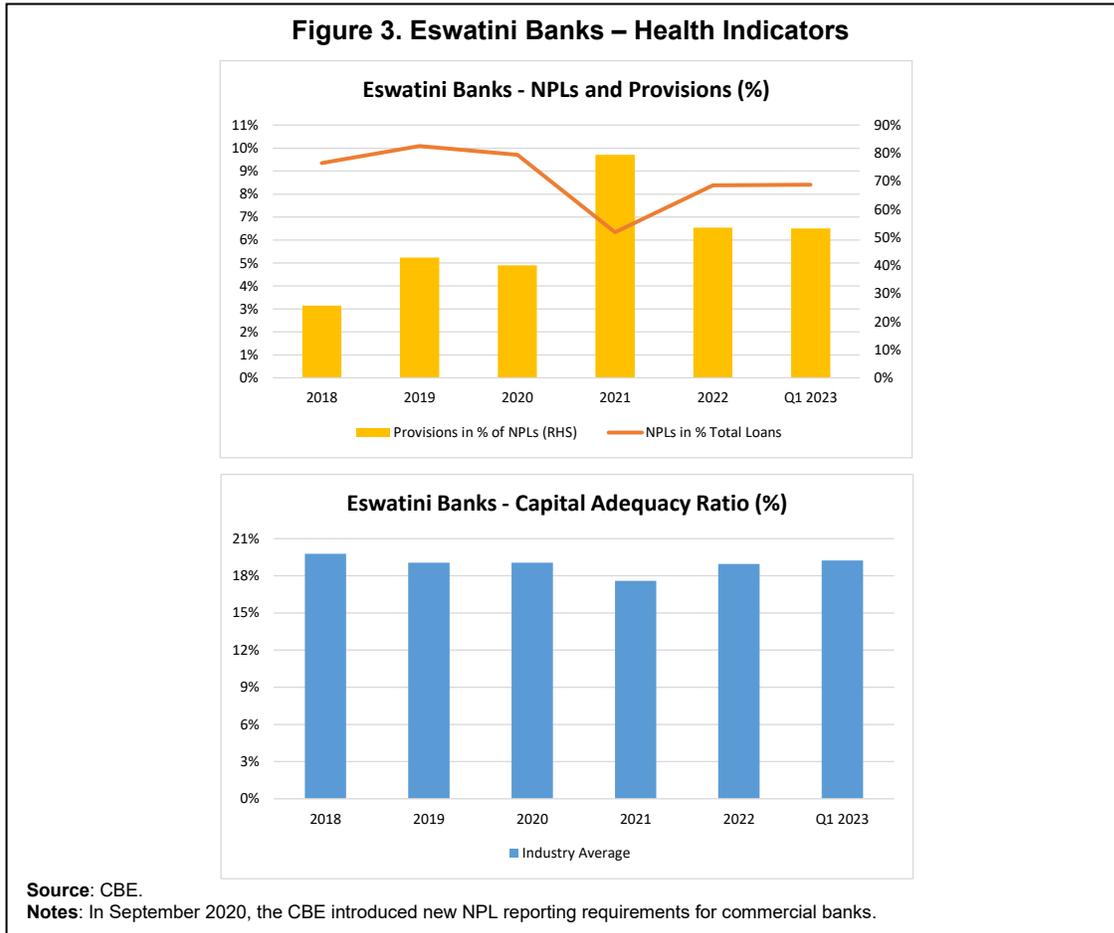
Household NPLs
in % of respective sectoral HH Loans



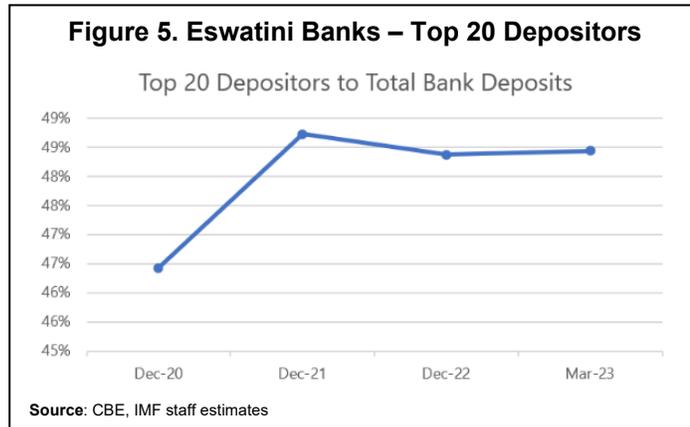
Source: CBE, IMF staff estimates.

Notes: (i) In September 2020, the CBE introduced new NPL reporting requirements for commercial banks. (ii) All SBS loans are assumed to be housing. (iii) Other loans are assumed to be non-collateralized.

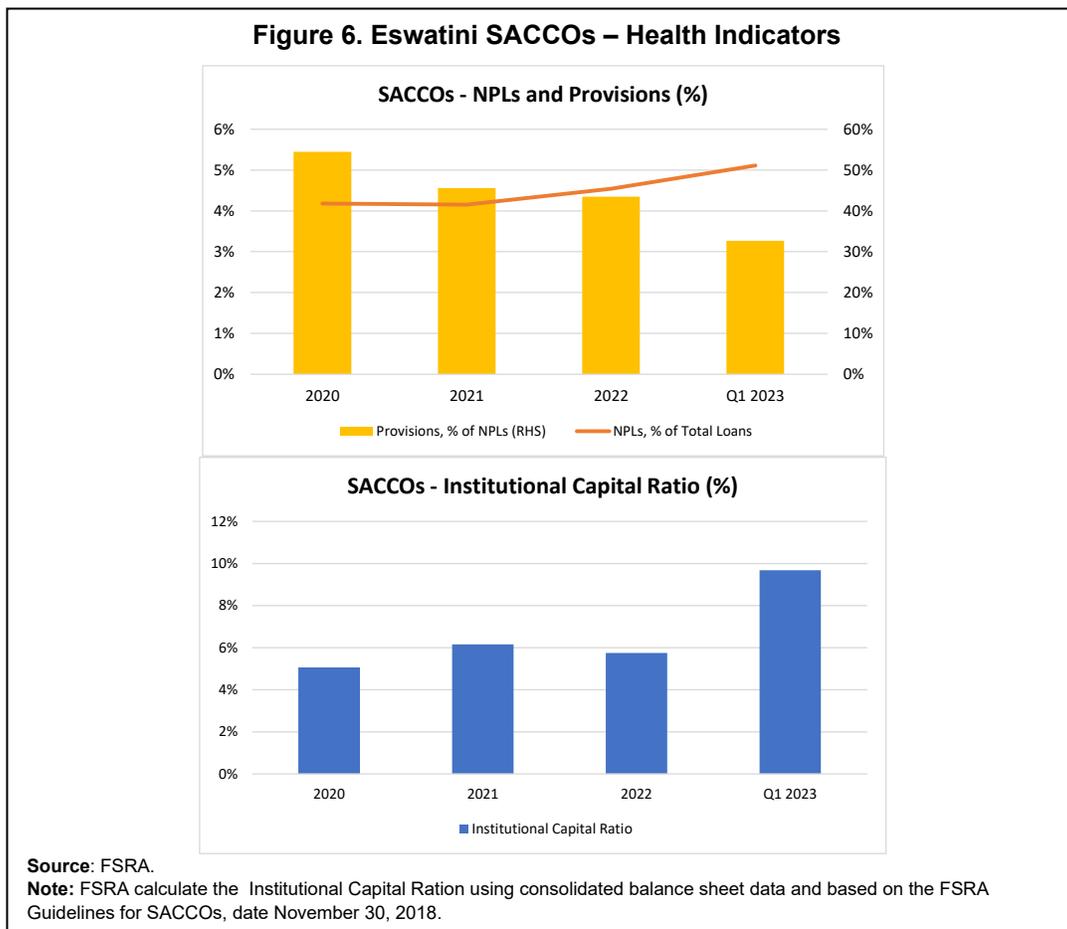
12. **While banks appear liquid and well-capitalized, NPL provisions remain relatively low, and building societies are weaker overall.** Improvements in the CBE’s supervisory approach and regulatory framework have resulted in seemingly well capitalized banks. However, bank NPLs appear to be rising to their pre-pandemic level and average around 8 percent against relatively low provisions, about 50 percent as of March 2023 (Figure 3). Of further concern is that building societies have much higher NPLs and much lower provisions than banks (Figure 4).



13. **Concentration in bank deposits signals potentially heightened liquidity risks.** The concentration in bank liabilities—top 20 bank depositors accounting for about 45 percent of total bank deposits—raises concerns about vulnerability to liquidity stress (Figure 5). The latter is particularly of concern in view of the gaps in the liquidity risk analysis and oversight identified by the diagnostic.



14. **SACCOs also show signs of stress.** While the SACCO institutional capital ratio almost doubled in the last three years, it did so from a relatively low basis of 5 percent in 2020 and is still short of the 8 per cent required by the FSRA. Furthermore, it appears SACCO NPLs are rising—albeit from a low level—while their provisions are getting lower (Figure 6). The



increasing trend in liquidation of SACCOs in the last five years further reconfirms the deteriorating health of the sector.⁴

15. **In retirement funds, delayed government payments lead to underfunding, driving risky investment strategies with potentially negative consequences.** Delayed payments of government contributions to defined-benefit pension plans have resulted in underfunded retirement funds. To close the funding gap, retirement funds have engaged in a search for yield, thus taking more risk in their investments. Such a risky strategy can potentially be detrimental to a retirement fund in a mature or closed state with the cash outflow higher than the income for the fund. The latter risk has recently materialized in a significant loss by a beneficiary fund.⁵

16. **Externally, retirement funds are highly exposed to the performance of the Johannesburg Stock Exchange (JSE).** At the beginning of 2023, the retirement fund assets amounted to about 36 percent of the total financial sector assets with over 50 percent exposure to equity, consistent with expected investment risk-return profile of retirement portfolios of relatively young members (average age 42.9 years). Of the total assets, about one third is invested in ordinary listed shares on the JSE. It creates a relatively significant exposure to market movements that impact the South African economy and companies listed therein (Figure 7).

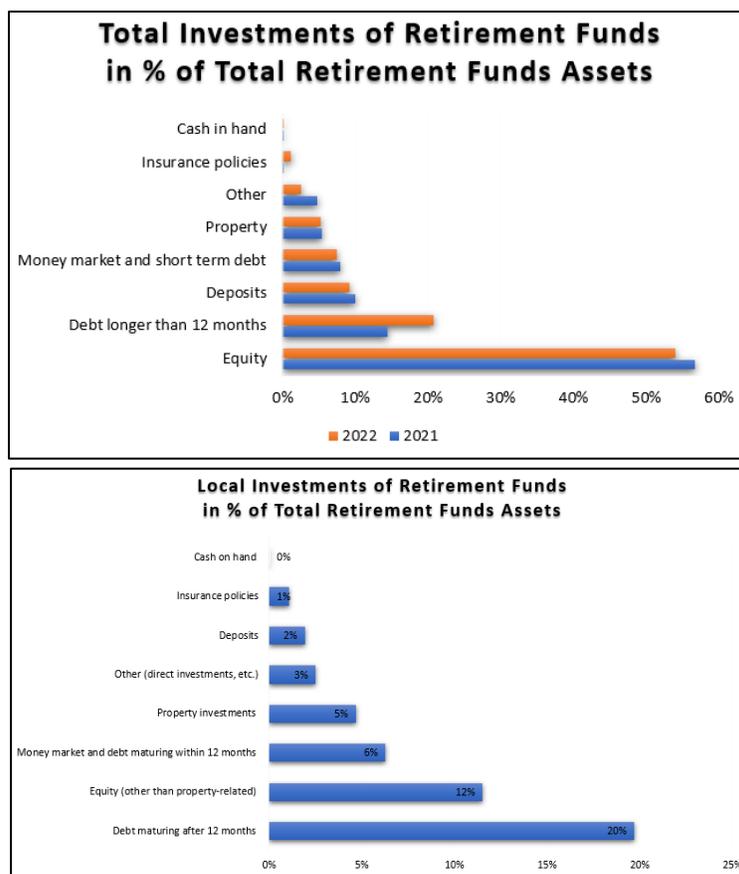
17. **Domestically, investments of retirement funds are diversified and exposed to the government at par with banks.** The composition of local investments by retirement funds—amounting to about half of the retirement fund assets—include mostly fixed income instruments maturing after 12 months (about 40 percent of the local investment portfolio or 20 percent of the total assets) with a significant portion (86 percent) invested in government securities, parastatals, and in NBFIs, including insurers and reinsurers (Figure 7). It makes the exposure to the government of the dominant nonbank segment of retirement funds be at par with banks' holdings of government securities i.e., about 17 percent of the total assets.

18. **The insurance sector is small and profitable.** Assets at end-2022 amounted to 5 percent of total financial sector assets. The solvency requirement for insurers is to hold more assets than liabilities—thus, all insurers have a positive equity. The sector enjoys high profitability with double digit returns on equity in 2022. The profitability of long-term insurers, negatively impacted by the COVID-19 pandemic, has recovered from its relative low return on equity (ROE) of 11 percent in 2021 to 24 percent in 2022 (Table 4). There is no catastrophe insurance.

⁴ During 2018, Temnotfo Credit and Savings Co-operative was closed and liquidated after it was determined to be deeply insolvent. Depositors of Temnotfo suffered losses. The assets have been sold, claimants have been paid to the extent of proceeds and the liquidating entity has been terminated. One additional similarly situated SACCO has also entered a compulsory liquidation more recently and another has requested to undertake a voluntary liquidation.

⁵ The collapse of the ESW collective investment scheme (former Ecsponent Limited), which attracted investments from a beneficiary fund, an insurer, and SACCOs by offering high returns, resulted in losses for the beneficiary fund amounting to 80 percent of its assets, leaving its beneficiaries (orphans) without entitled distributions.

Figure 7. Eswatini Retirement Funds – distribution of investments



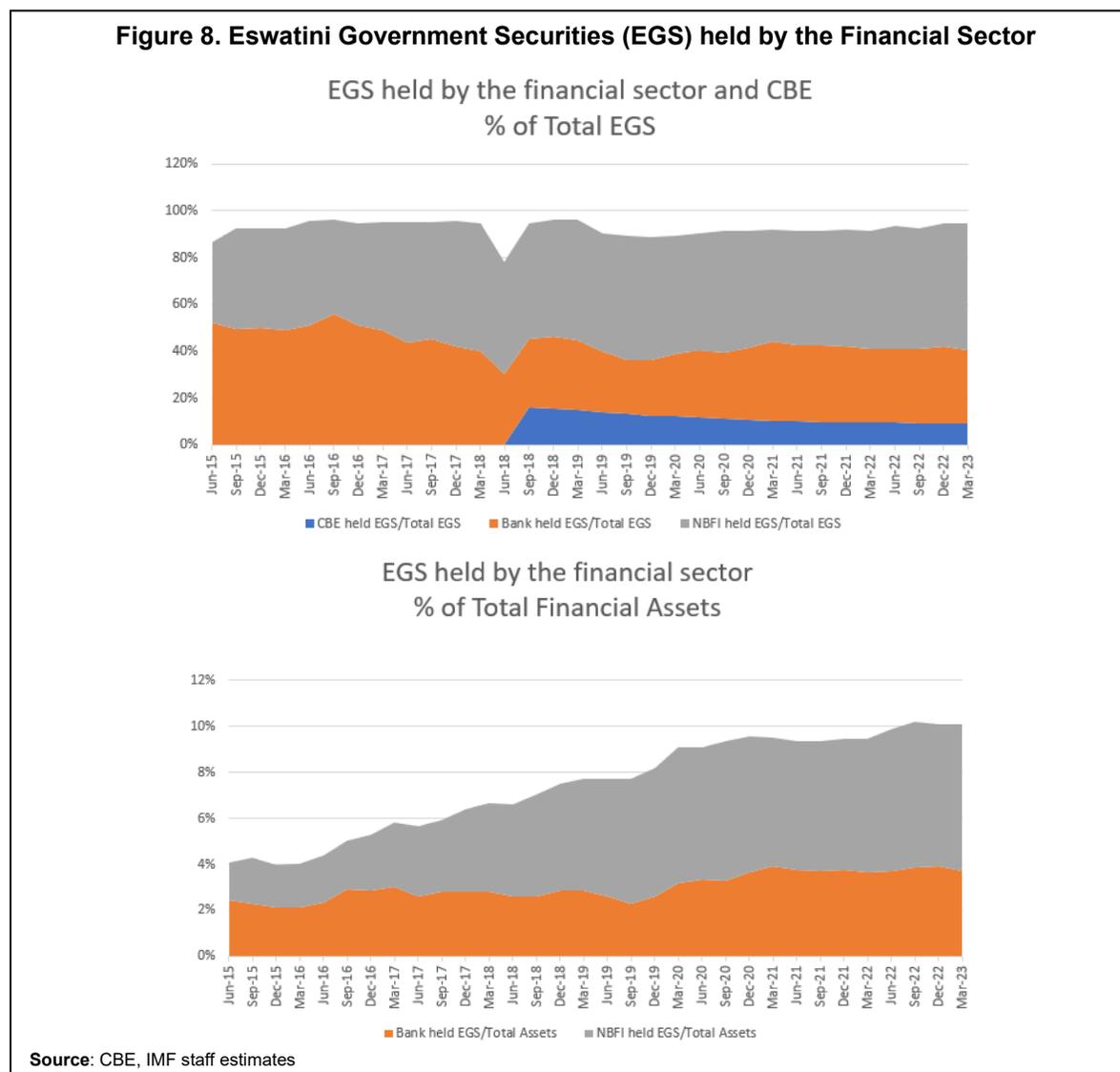
Source: FSRA, IMF staff estimates.

Table 4. Eswatini Insurance – Health Indicators

Insurance indicators, in percent	Short-Term Insurers		Long-Term Insurers	
	2022	2021	2022	2021
Claims ratio	28	28	72	83
Gross claims ratio	24	23	71	87
Expense ratio	44	68	27	41
Investment income ratio	7	7	14	42
Investment income / average invested assets	5	6	3	8
Combined ratio	72	96	n/a	n/a
Operating ratio	65	88	n/a	n/a
Profitability ratio	31	31	n/a	n/a
Return on equity (ROE)	27	28	24	11
Return on assets (ROA)	13	13	3	4
Risk retention ratio	57	60	n/a	n/a
Reinsurance recoveries + reinsurance commissions ratio	28	37	n/a	n/a
Personnel Expenses / GWP	n/a	n/a	5	18
Operating Expenses / GWP	n/a	n/a	21	39

Source: FSRA, IMF staff estimates

19. **Interlinkages between banks and NBFIs appear to be weak.** NBFIs do not depend on financing from commercial banks—bank loans to NBFIs are about 1 percent of total bank loans—and NBFIs deposits in banks only account for about 11 percent of bank deposits. The dominant NBFIs segment—retirement funds—places less than 1 percent of assets in bank (and building society) deposits. In case of the insurers, the exposure as a percentage of the total market equity is less than 5 percent with one exception, where the exposure is double digits and should be monitored to avoid building further systemic risk. Further analysis of interlinkages between banks and NBFIs, including contagion channels, could usefully be conducted on a regular basis in the future.



20. **Partly as a result of shallow capital markets, financial institutions mainly hold government-issued securities (Figure 8).** Most government domestic debt is on the balance sheets of banks and nonbanks. While this exposure only accounts for about 10 percent of total

financial sector assets, it exposes the financial sector to sovereign risk. About 8 percent of NBFIs assets, and 17 percent of bank assets, are held in government securities.

21. **Digital financial innovation has concentrated on rapidly growing mobile payments, whose development and accompanying risks need a close monitoring.** Two mobile operators and two fintech companies provide the bulk of services, focusing on retail payments. They are required to deposit the money held in customers' mobile wallets in trust accounts with commercial banks (below 5 percent of total bank deposits) and are not authorized to extend credit. Micro credit firms use the digital platforms offered by the mobile operators for lending. The mobile operators and fintech companies have served the unbanked and underbanked and have helped foster financial inclusion. The fintech sector is growing rapidly, hence the attending risks, including operational risks, require close monitoring.

D. Stocktaking of Past Technical Assistance

22. **The Eswatini authorities have received considerable technical support from the IMF and other TA providers, including the World Bank.** In the last five years, the focus of MCM TA was on strengthening bank and NBFIs supervision and regulation, central bank governance, liquidity management, and financial market infrastructures (Table 5). The World Bank has assisted on payment and remittance systems, credit information sharing, and financial inclusion.

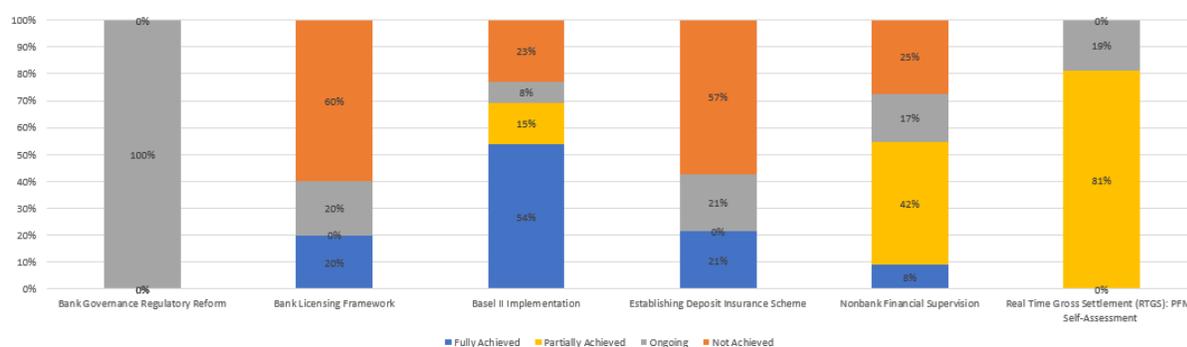
Table 5. IMF MCM Technical Assistance to Eswatini, 2018–2023

Lead Division	Dates	TA Mission Title	Status
FY23-24			
AFS/ CO	(tbc) FY24	Liquidity Forecasting and Management – follow up	Planned
AFS/ CO	(tbc) FY24	Emergency Liquidity Assistance (ELA)	Planned
AFS/ FR	(tbc) FY24	Banks' Governance Regulatory Reform - Drafting	Planned
TA	July 4-18, 2023	Main FSSR mission	Completed
TA	Apr 26-28, 2023	Scoping FSSR mission	Completed
AFS/ PI	Apr 24-28, 2023	Oversight of payment service providers	Completed
CO	Oct – Nov 2022	CBE Strategic Planning Apr 2023 – March 2028	Completed
FC	November 2022	Establishing a Deposit Insurance Scheme	Completed
AFS/ FR	October 2022	Banks' Governance Regulatory Reform - Framework assessment and reform planning	Completed
FY22			
AFS/ PI	09/01-08/21	Finalization of PFMI Review Report	Completed
CO/ LEG/ AFR	07/13-16/21	Central Bank of Eswatini Board Workshop	Completed
AFS/ CO	05/10-09/03/21	Liquidity Monitoring and Forecasting	Completed
FY19-21			
TA	2/8-9/2021	NBFIs Supervision - Insurance and Retirement Funds	Completed
CO	2/6-16/2021	Liquidity Forecasting Framework	Completed
AFS/ PI	1/14-25/2021	Feedback on revised FMI Assessments	Completed
FR	12/30/2020	WAH - NBFIs Supervision Capital Markets	Completed
AFS/ FR	12/7-18/2020	Bank Licensing Framework (CBE)	Completed
FR	2018 to 2020	NBFIs Supervision Capital Markets, Insurance and Retirement Funds, Credit and Savings Institutions	Completed

Source: IMF database of TA activities.

23. **While the CBE and FSRA have implemented many TA recommendations, critical ones remain pending (Figure 9).** The financial supervisors have strengthened Basel II implementation and supervision of NBFIs. Areas in need for further implementation include bank governance (notably for the government-owned bank) and updating the CBE risk management guidelines. In the NBFi sector, the planned conversion of largest building society into a bank is pending, with no clarity on timelines or a precise action plan. Effective supervision of building societies and SACCOs remains work in progress, including onsite and offsite monitoring and supervisory data quality and availability. In addition, corporate governance, internal controls, risk management, and compliance in the NBFi sector, and oversight of assets managers and investment funds, require further strengthening as evidenced by recent failures in SACCOs, regulatory breaches by building societies, and fraud by asset managers.

Figure 9. Implementation status of the MCM TA recommendations



Source: CBE, FSRA, IMF staff estimates.

Notes: (i) In topics of FMIs, FinTech, Payments and CMIs (capital market intermediaries), the implementation status is self-assessed by the authorities. In the rest of the topics, the implementation status is self-assessed by the authorities and verified by the FSSR diagnostic mission. (ii) The implementation status of TA recommendations on Banks' Governance Regulatory Reforms and Establishing a Deposit Insurance Scheme is largely explained by the relatively recent TA delivery – October and November 2022, respectively.

24. **There has been little progress with the passage of needed legislative reforms (Table 6).** Legal amendments to financial sector laws and regulations, which had been designed with MCM TA support, appear stalled. Expediting the passage of this legislation should be a priority for the next parliamentary session. The authorities should consider amending existing acts and introducing new bills as listed in Table 7, ideally as a single package to be presented to Cabinet and Parliament after the 2023 elections. Especially for legal texts that were prepared over a year ago, but also in light of expected changes in the regulatory architecture, the authorities should assess whether any updating might be necessary—in consultation with IMF staff, as needed.

Table 6. Outstanding Eswatini Financial Sector Legislative Reforms

#	Draft bills and amendments	Main objectives of the amendment/ enactment	Additional considerations
1.	Amendments to the Central Bank of Eswatini Act (1974)	To modernize the central bank's functions	The Eswatini authorities are advised to consult the IMF MCM and Legal Departments on any missing elements in the draft amendments
2.	Financial Stability Bill	To establish the financial stability framework—macroprudential policy and crisis management, resolution, safety net	The Eswatini authorities are advised to consult the IMF MCM and Legal Departments on any missing elements in the draft bill

#	Draft bills and amendments	Main objectives of the amendment/ enactment	Additional considerations
3.	Amendments to the Financial Institutions Act (2005)	To strengthen the legal, regulatory, and supervisory, and resolution frameworks in line with the Basel Core Principles for Effective Banking Supervision and FSB Key Attributes	The draft FIA amendments propose mitigating the lacunae in bank oversight and must be enacted quickly. Consider consulting with the IMF Legal Department (LEG) on final legal provisions in the draft amended FIA.
4.	Amendments to the Financial Services Regulatory Authority Act (2010)	To strengthen the legal, regulatory, and supervisory frameworks for nonbank financial institutions in line with international standards To enable the FSRA to become a signatory of the IOSCO multilateral MoU	Consider including provisions for: - Reporting obligation of any court appointed administrator to the FSRA, - Powers for the FSRA to supervise holding companies of financial institutions and any outsourced activity, - Requirement of a cooling off period for the senior management of the FSRA when leaving the institution before accepting a senior position (where approval from the FSRA is required) in a supervised entity by the FSRA, and - Legally stronger powers for Ombudsman.
5.	Amendments to the Insurance Act (2005) and the corresponding regulations	To enhance the safety and soundness of insurance firms, and to promote access to insurance products	Consider including additional provisions for powers for the FSRA to supervise holding companies of insurers as well as of any outsourced activity.
6.	Amendments to the Retirement Funds Act (2005) and the corresponding regulations	To strengthen the legal, regulatory, and supervisory frameworks for retirement funds	Consider granting the power to the FSRA to supervise holding companies of retirement funds as well as of any outsourced activity
7.	Amendments to the Building Societies Act (1962) and the corresponding regulations	To facilitate building societies to obtain banking license To strengthen the legal, regulatory, and supervisory frameworks for building societies	The Building Societies Act is archaic. The urgent need is to go ahead with the new act and regulations drafted under the FIRST Technical Assistance on the NBSI Supervision.
8.	Savings and Credit Cooperatives Bill and the corresponding regulations	To establish the legal, regulatory, and supervisory frameworks as there is no sectoral law	The MOF had initiated a project to draft the SACCO bill and regulations. But it has not reached a logical conclusion. There is an urgent need to start the process and engage an expert consultant to redraft the bill and regulations taking into account the developments in the sector.
9.	Amendments to the Securities Act (2010) and the corresponding regulations	To upgrade the legal, regulatory, and supervisory frameworks for securities markets	The Eswatini authorities are advised to consult the IMF Monetary and Capital Markets Department on any missing elements in the draft amendments.

Source: Mission's findings.

25. **The expected changes in the regulatory architecture—notably the integration of CBE and FSRA oversight responsibilities—will require legal amendments that would ideally be incorporated in the legal package mentioned above.** The integration appears to be progressing in line with the government’s SOE reform plan,⁶ although there is little clarity on timelines and final organizational structure. IMF staff stand ready to assist the authorities in this area. In the meantime, the CBE and FSRA should enhance their coordination on financial stability issues by focusing on technical matters at hand, e.g., how best to capture and mitigate risks to financial stability, resuming quarterly meetings of the Macroeprudential Technical Committee that were put on hold during the pandemic, establishing a joint project management for the implementation of the TA Roadmap (TARM) proposed by the FSSR diagnostic, and working jointly on other similar technical matters. The authorities can also consider working jointly on the legislative package for the new Cabinet and Parliament to consider in 2024.

26. **The FSSR diagnostic mission also advised the authorities to continue with a range of initiatives.** The mission identified six other areas for authorities to continue working with the IMF and other partners independent of the FSSR process: (i) capacity building of the CBE Board under the CBE Strategy reset started in August 2022; (ii) ELA operationalization; (iii) CBE liquidity forecasting and management; (iv) banks’ governance regulatory reform; (v) Financial Market Infrastructures (FMIs), payments, remittances, CBDC; and (vi) financial sector development, including capital markets, financial inclusion, gender, and climate. Four of the areas listed above are currently supported by MCM HQ and AFRITAC Central Bank Operations (CO) and Financial Sector Regulation and Supervision (FR) resident advisors while area (v) is supported by both AFRITAC Payments, Currencies, and Infrastructures (PI) resident advisor and the World Bank’s Eswatini Financial Sector TA program 2023-24 on National Payments System (NPS) and Credit Reporting Systems. The IMF’s recent and future TA plans are listed in Table 6. The last area (vi) can potentially be covered under the WB FSAP Development Module and WB Eswatini Climate Change Development Report. The former has recently been requested by the authorities from the WB and the latter is in the WB’s plan for FY24.

II. DIAGNOSTIC REVIEW AND MAIN RECOMMENDATIONS

The section summarizes main findings and recommendations from the FSSR review. For more details, see Table 7. TARM.

A. Macroeprudential policy framework and systemic risk monitoring

Institutional Arrangements for Financial Stability

27. **Press ahead with efforts to enhance cooperation between the CBE and FSRA, irrespective of the progress in the expected oversight integration and legislative reforms.** The cooperation on financial stability and financial sector oversight in a timely and effective

⁶ Eswatini Government: [SOE-Restructuring-Framework-in-Eswatini.pdf \(gov.sz\)](https://www.gov.sz/soe-restructuring-framework-in-eswatini.pdf)

manner is important in view of the identified macrofinancial risks and vulnerabilities, especially in NBFIs segments. Irrespective of outcomes and timing of the expected integration of oversight responsibilities and legislative reforms, the authorities should press ahead with efforts to strengthen their coordination. As a first step, the CBE Financial Stability Unit (FSU) should consider reinvigorating the Macroprudential Technical Committee, which would involve the FSRA as well as the CBE Banking Supervision Department (BSD) for technical and detailed deliberations. Additionally, to strengthen the ties between the two institutions in the systemic risk area, the FSRA should be given a more defined role in the Financial Stability Report (FSR) production. For example, the section on NBFIs in the FSR could be produced by the FSRA Research Department through a more rigorous analysis of the data collected for the FSRA's Quarterly Statistical Bulletin rather than having the FSRA only provide the underlying data.

28. **While advancing the expected oversight integration and legislative reforms, start preparing for an expanded macroprudential mandate through review resourcing and roles of the CBE and FSRA (Box 1).** Adoption of the Financial Stability Bill will be an important for the establishment of a comprehensive macroprudential framework. While advancing the expected oversight integration and legislative reforms, both the CBE and FSRA can take steps to prepare for their new roles. In addition to the enhancement of the cooperation on financial stability and financial sector oversight discussed in the preceding paragraph, the authorities could review their resources vis-à-vis their expected roles. The CBE could consider creating a new FSU deputy head position to allow the head of the unit to focus more on implementing the new macroprudential functions of the CBE. In a longer term, the CBE should consider transforming the FSU into a Financial Stability Department with dedicated divisions for specific functions. The FSRA could also consider taking steps in building its resources proportionate to its expected new role in the macroprudential framework e.g., more resources could be devoted to enhancing the FSRA's NBFIs offsite surveillance and forward-looking assessments of risks.

Systemic Risk Monitoring

29. **Undertake a thorough stocktaking of data availability, especially on NBFIs, and develop a Risk Dashboard.** Building on the assessment related to Financial Soundness Indicators (FSIs) and financial statistics undertaken by the FSSR diagnostics, and to identify data gaps, the CBE and FSRA should consider undertaking a stocktaking of data availability and frequency of reporting as well as a revision of the reporting templates as needed. Moreover, to supplement the existing analytical tools, the CBE FSU should initiate the planned work toward the development of a Risk Dashboard, taking into account the available data and include relevant NBFIs indicators. Such a Risk Dashboard should also include indicators that capture contagion risks, against the background of a high degree of interconnectedness in the NBFIs sector as well as close ties to South Africa. The development will be a long-term engagement since such work presupposes a buildup of longer time series, which will take time.

Box 1. Draft Financial Stability Bill on macroprudential and crisis preparedness functions and powers

While the current Central Bank of Eswatini Act specifies some basic macroprudential functions, the draft Financial Stability Bill takes a step further. Under the draft bill, the CBE is expected to formally be designated as the macroprudential authority. A *Macroprudential Forum* will be comprised of CBE, FSRA, and MOF representatives and supported by a technical committee. The main macroprudential decisions, including the designation of systemically important financial institutions, the introduction of macroprudential measures, will be cleared by the Forum.

The bill will give the CBE powers in the macroprudential area, including the authority to issue a wide number of macroprudential measures, designate financial institutions as systemically important, and identify systemic events and mitigate related risks. It will also task the CBE to issue warnings and recommendations to financial sector authorities in order to request the adoption of specific actions.

The bill also intends to establish an interagency *Financial Stability Panel (FSP)*, which would formalize and provide more clarity for the protocol of coordinating crisis preparedness and management to contribute to the promotion of financial stability. Representatives from the MOF, CBE, FSRA, Attorney General's Office and the proposed DPf, when established, would be members of the FSP. Committees dedicated to financial stability are generally of two types: (i) systemic risk prevention; or (ii) crisis preparedness and management. The purpose of such coordinating bodies is to create a framework for effective coordination of the authorities on these matters, with protocols governed by statute or informal agreement. This coordination is necessary because decision-making powers are commonly allocated across a number of authorities.

Source: CBE.

Operationalizing Macroprudential Policies

30. Develop criteria to guide decisions on D-SIFI designation and implement the new macroprudential policy gradually, starting with the measures targeting household indebtedness. The CBE should develop the criteria to be used for designating financial sector institutions as systemically important based on the guidance provided in the draft bill. As the CBE concludes preparatory work in this area, it should involve the FSRA in identifying Domestic Systemically Important Financial Institutions (D-SIFIs) in nonbank segments. Since the CBE has identified increased household indebtedness as an important risk, and banks already base their decisions to grant household lending on a Loan-to-Value (LTV)-based framework, it would seem appropriate to start by codifying existing industry standards with the introduction of sectoral, borrower-based tools. As commercial banks in Eswatini are well capitalized, the case could be made to introduce broad-based capital instruments once the CBE has gained experience from implementing these borrower-based tools.

Stress Testing

31. Overhaul and strengthen the stress testing framework conducted by the CBE as well as expand it to also include the NBFi sector. While the tests conducted by the CBE FSU are a useful complement to its financial surveillance activities, there is scope for strengthening the framework both for bottom-up (microprudential) and top-down (macroprudential) stress testing. Focus should first be on revamping the solvency stress tests as well as capturing the NBFi sector in the tests. The top-down stress testing framework could be strengthened by including the

elaboration of macrofinancial scenarios as well as the development of satellite models.⁷ Since NBFIs constitute a large share of the financial sector and are increasingly interconnected with banks, including nonbanks into the overhauled stress testing framework will be essential.

B. Financial safety net and crisis management

Institutional Arrangements for Financial Safety Net and Crisis Management

32. Launch a Financial Stability Panel (FSP) based on a multilateral MoU, not waiting for the passage of the Financial Stability Bill. Current bilateral cooperation and information exchange should continue unabated and improve where the cooperation envisioned in the existing bilateral MoU is not met. An FSP could be operationalized through an MoU as an interim measure until it can be codified in the law (Box 1). The MoU would address protocols for interagency coordination. The FSP should meet regularly at prescribed minimum frequencies, e.g., quarterly. Confidentiality must be preserved throughout the crisis coordination process.

33. Adopt measures of structural separation in the functions of safety net and crisis management. The CBE is the provider of emergency liquidity support, it supervises banks, it is the de facto resolution authority for banks, and it will take on the management of the proposed deposit protection fund.⁸ Currently, the FSU houses the resolution authority and deposit protection functions although no staff are entirely dedicated to these functions. The CBE is advised to continue with the implementation of the organization plans for the emerging functions that take into consideration the need for structural separation.⁹

34. Make the FSP the primary platform for crisis communication messaging. The CBE has a Strategy and Communications Department responsible for bank-wide communication, but it does not presently have a crisis plan. A crisis communications plan for the recommended FSP

⁷ See Adrian, Morsink, and Schumacher, 2020, "Stress Testing at the IMF", International Monetary Fund, Monetary and Capital Markets Paper No 20/04.

⁸ In a resolution operation this would mean that the CBE could have multiple roles: creditor for liquidity support lending, authority resolving (selling) a failed bank, supervisor of both the failing bank and a potential buyer and manager of the DIS as primary creditor to the failed bank. See Moretti, Dobler, and Piris, "Managing Systemic Banking Crises: New Lessons and Lessons Relearned," Departmental Paper Series, 11 February 2020, p. 28, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/02/10/Managing-Systemic-Financial-Crises-New-Lessons-and-Lessons-Relearned-48626>.

⁹ The Key Attributes 2.5 promotes the operational independence of the resolution function, sound governance, and adequate resources. The plan should support structural separation through: (1) ensuring separate lines of reporting for each key functional department at the top of the central bank; (2) enabling a structure of standing committees with functional mandates as part of the governing structure of the CBE; (3) providing to the resolution and deposit protection groups sufficient staff and means; and (4) formalizing a protocol of coordination among functions.

is a necessary element of promoting financial stability through a transparent presentation of the state of the financial system and of the government responses in process or contemplated.¹⁰

35. Update the CBE-SARB MoU to include recovery and resolution planning and crisis management. The current MoU is dated and needs to be revised. The existing MoU was signed in early 2010 and predates many recent best practices for resolution and crisis management. The process for recovery plans at the three South African bank subsidiaries in Eswatini is advanced based on SARB’s directives. This progress can be leveraged to allow CBE to develop an independent recovery plan protocol. However, resolution plans for those subsidiaries still have to be composed. The MoU could also address cooperation and simulations for instability of an Eswatini-based subsidiary of a South African banking group or the home banking group itself.

Recovery and Resolution Planning – Banks and Deposit-taking NBFIs

36. Develop recovery and resolution plans for Eswatini Bank and Swaziland Building Society (SBS). Given the bank’s government ownership and control and the more advanced state of the cross-border banks in formalizing recovery and resolution plans, Eswatini Bank would be a logical starting point to develop templates for recovery plans and resolution plans. It could be developed through the cooperation of CBE and MOF before the mandate for these plans is approved under law. In deposit-taking NBFIs, the FSRA could start the same initiative with SBS mainly because of the existing plan for its conversion into a bank. The FSRA is advised to request recovery plans from SBS based on existing powers and draft resolution plans for SBS.

Recovery and Resolution Planning – Retirement Funds

37. Require and enforce recovery plans for the underfunded retirement funds (RFs). The public RFs are underfunded and operating outside of the regulatory requirements. The FSRA Defined Benefit Retirement Fund Funding Guideline 2/2020 requires strict supervisory measures when a retirement fund is underfunded. However, the Public Sector Pension Fund (PSPF), the largest RF in the country, has remained underfunded for several years.¹¹ Given that the RF asset valuation does not follow International Financial Reporting Standard (IFRS) 9, there is uncertainty about the assets’ value and thus about the actual funding gap. The FSRA is advised to request recovery plans from all RFs as well as prepare and enforce resolution plans for RFs, starting with the underfunded public RFs.

Emergency Liquidity Assistance

38. Develop supporting documentation for Emergency Liquidity Assistance (ELA) consisting of separate public instructions and confidential, internal procedures. There is a

¹⁰ See also ‘Central Bank Communications Before, During and After the Crisis: From Open-Market Operations to Open-Mouth Policy,’ Bank of Canada, Working Paper 2013-41 (<http://www.bankofcanada.ca/wp-content/uploads/2013/11/wp2013-41.pdf>). ‘Crisis communications’ are public awareness activities during a crisis.

¹¹ The PSPF’s latest Annual Report (2022) indicates a funding gap of 20 percent.

set of draft ELA procedures. Public instructions address objectives, conditions, and parameters of ELA, while solvency (and secondarily viability) should be defined on a forward-looking basis. The CBE is also advised to develop internal ELA guidelines to complement public instructions.¹² The CBE has faced a low availability of reserves to respond in an emergency and procedures to address this would fall under internal procedures.

39. Address the option for providing ELA in resolution as part of any procedures in a revised framework under the amended CBE Act. A troubled bank that is undergoing a financial transformation via resolution (for example, a bank that is viable under a resolution plan, including a bridge bank), may have liquidity needs. An announcement of a resolution strategy may disrupt depositor confidence and a common response would be a drain on deposits. Procedures should detail preconditions under which lending can be pursued in resolution and an exit strategy from the emergency liquidity extension.

Failure Resolution – Banks

40. Deploy Purchase & Assumption (P&A) as the primary resolution tool, complemented by bridge bank as an alternative, once the amended Financial Institutions Act (FIA) is adopted. The CBE should operationalize the transfer of assets and liabilities resolution tool as the preferred resolution strategy (FIA Section 89). Only if there is no buyer willing to participate in a full/partial sale, and if it is considered that liquidation could pose financial stability risks, that a bridge bank (FIA Section 90) may be a necessary, temporary solution. An asset management vehicle (FIA section 91) and bail-in (FIA section 92) may be applied in specialized circumstances.

41. Assign dedicated staff to resolution and Deposit Protection Fund (DPF) and have available a pop-up resolution function whereby resolution staffing can be increased during a crisis. The management of the CBE is aware of the modest requirements during periods of stability and increased resources for a resolution or crisis. The start-up of a resolution function and a DPF would require a commitment of resources for infrastructure and technical capacity. Committed staff should initiate work on resolution plans and resolution procedures. A pop-up resolution function should be planned to effectively resolve problem banks in countries with small banking systems and limited resources. With the formation of the DPF, the CBE may also consider entering shared services contracts.¹³ There are no plans for the DPF to harmonize or merge operations with other jurisdictions in the Common Monetary Area, but there is overlap in member institutions.

¹² These should describe the task allocation, internal processes, organizational considerations, and technical indicators, such as the central bank's priority order for the selection of ELA collateral.

¹³ CARICOM, "Caribbean Community Policy on Deposit Insurance," 1 April 2021, p. 25. Examples include compensation software; human resource training; technical services; reimbursement procedures; public awareness.

42. **Develop a resolution manual once the new resolution regime is in place.** A resolution manual is a document that sets out policies and procedures for undertaking the key organizational functions of a resolution authority. The procedures specify decision points essential in applying resolution powers and tools. The resolution manual should address not only procedures that have to be implemented but also must envision contingency procedures. It also needs to incorporate policies adopted by the decision-making bodies of the CBE.

Failure Resolution – Insurers and Retirement Funds

43. **Enhance the liquidation regulation of retirement funds and insurers to allow closely accompany the process and protect consumers as per the supervision objectives.** The appointment of a curator under the FSRA Act and/or a judicial manager under the Retirement Funds Act provides the FSRA with control over the supervised entity to protect consumers and prepare the entity to either recover or be resolved. However, the FSRA has yet to issue curator rules and powers, creating uncertainty of the curator proceedings. The rules and powers for the appointed curator should be issued to ensure the operating of an ailing entity under the curator follows all technical aspects and consumer protection requirements as per the corresponding acts. The members of a retirement fund under judicial winding up should be treated as preferred creditors rather than deferred ones. The draft amendment to the Insurance Act should be enacted to allow the FSRA Act to provide for the appointment of a curator and/liquidator for insurers.

44. **Develop and enact the adequate regulation to close or dissolving participating retirement funds operating under an umbrella fund.** The participating retirement funds under an umbrella fund are of short duration due to the volatility of the employers. Applying the standard liquidation approach of a retirement fund creates excessive cost incommensurable with the risk arising from closing such participating funds and reducing the already low levels of retirement savings achieved in the short duration of the fund scheme. Considering that participating funds operate under an umbrella fund and this fund remains in operation, the closing or resolving of the participating funds should be dealt with under the umbrella fund regulation. The regulation should require a cost-efficient manner and compliance with the consumer protection regulations. For instance, participating funds under an insurance policy should follow a similar process as the cancellation of an insurance policy.

Deposit Protection

45. **Run financial projections and scenarios, utilizing stratified depositor data, and at the same time, explore options to build seed capital.** These are needed to build the initial capital of the DPF and to finalize the policy and legal basis for the DPF. The CBE should undertake projections over at least a 10-year period during which the target level fund would be built. Consideration should be given to the sources of funding for building the fund, including

from the MOF and potentially donors.¹⁴ The CBE should also run alternative, pessimistic scenarios, to include a bank failure scenario to test the resiliency of the DPF.

46. **Develop a system of depositor compensation that is a fully automated process which can compensate protected depositors within seven business days consistent with the Deposit Insurance Core Principles (DICP).** There is no current mandate for timeliness under the amended FIA for reimbursement. If a bank were to fail early on in the history of the DPF, the process for paying depositors would be onerous. The CBE should consider various payment methods and technologies.¹⁵

47. **Do not include members of the industry in the DPF governing board, given the inherent conflicts of interest and confidentiality considerations.** Under the amended FIA the DPF Board of seven members is to include two representatives from member institutions appointed by the Bankers' Association.¹⁶ A governance structure based on the participation of an appointee of a member institution is not in keeping with best practice given the conflicts of interest and release of confidential information that such a structure might lead to.¹⁷

48. **Come to agreement on emergency funding arrangements for the DPF through the MOF.** Back-up funding should be operationalized between the CBE, which is responsible for the DPF, and the MOF. At this point, the MOF has not indicated a willingness to provide a borrowing facility to the DPF. The CBE should not provide emergency funding, as funding of the DPF is a fiscal responsibility and lending would draw resources away from the CBE in meeting its objectives and undertaking its core operations.¹⁸

Financial Crisis Management

49. **Formalize all crisis management-related procedures into a Financial Crisis Management Binder (FCMB).** Since some of the protocols and procedures are not yet in place, the CBE should develop a census of all existing crisis management documents, determine which gaps are evident and develop those procedures that are lacking.

¹⁴ The World Bank and KfW participate in development of deposit protection systems, and both provide seed capital.

¹⁵ Financial Institutions Bill, Section 135, Payment of Guaranteed Deposits. International Monetary Fund, "Establishing a Deposit Insurance Scheme," April 2023, p. 7. IADI Core Principles for Effective Deposit Insurance Systems, Principle 15, Reimbursing Depositors.

¹⁶ Financial Institutions Bill, Article 125.

¹⁷ David S. Hoelscher, Michael Taylor and Ulrich H. Klueh, "The Design and Implementation of Deposit Insurance Systems," Occasional Paper 251, 2006: International Monetary Fund, p. 24. The alternative is to create an advisory board made up of industry representatives to provide their views. See IMF, "Kingdom of Eswatini: Establishing a Deposit Insurance System," April 2023, paragraph 12, p. 13.

¹⁸ IMF, "Eswatini: Establishing a Deposit Insurance Scheme," paragraph 30, p. 17 – 18.

C. Supervision and regulation of deposit-taking financial institutions

Banks

50. **Complete the outstanding legislative and regulatory reforms.** The enactment of the outstanding laws and regulations will facilitate benchmarking of the Eswatini banking system to the international standards and good practices. Development of a roadmap for this purpose and its implementation on a project mode basis are ‘sine qua non’ for the adoption of regulatory reforms in the banking segment.

51. **Conduct a comprehensive self-assessment against the Basel Core Principles for Effective Banking Supervision (BCP).** In March 2003, a self-assessment of the BCPs was done by the CBE supervisors and submitted to the regional Committee of Central Bank Governors’ Banking Supervision sub-committee. However, this exercise did not involve a granular assessment of each principle. Hence, a comprehensive self-assessment of BCPs will help identify the gaps in prudential regulation and supervision and bridge the gaps to implement forward-looking assessments of risks.

52. **Complete expeditiously the implementation of Pillars 2 and 3 of Basel II.** Comprehensive coverage of risks under Pillar 2 and the harmonization of Risk Appetite statements with the business strategy by banks are to be ensured. Prescribing additional capital for Pillar 2 risks after conducting Supervisory Review and Evaluation Process (SREP) does not fall within the powers of the CBE as approval from the Finance Minister is required for this purpose. Amendments to the FIA are required for enhancing the regulatory power of the CBE. Disclosures under Pillar 3 require an enhancement, especially the risk dashboards and the qualitative disclosures.

53. **Formulate and implement a roadmap for implementation of select elements of Basel III, especially for the liquidity requirements, in a calibrated manner.** In particular, liquidity regulations are needed to: (i) develop bank contingency funding plans; (ii) undertake a quantitative impact assessment (QIS) of the introduction of the Liquidity Coverage Ratio; and (iii) implement longer-term plans to diversify bank sources of funding.

54. **Devote more attention to the IFRS implementation, especially the standards IFRS 7, 9, and 13.** The implementation of these standards depends on information technology systems, data, and expert knowledge of statistical modelling. The skill of CBE supervisors has to be enhanced for validation of Expected Credit Loss (ECL) models under IFRS 9 and analyzing disclosures under IFRS 7 and IFRS 13.

55. **Finalize the early intervention framework and undertake prompt corrective actions.** This will enable CBE supervisors to identify challenges in the banking sector and take appropriate mitigating measures to prevent the build-up of risks in the system.

56. **Revise the existing requirements for business continuity and disaster recovery planning with a greater level of prescription, especially in the context of the COVID-19 pandemic.** There should be insightful communication of business continuity plans throughout a bank, so that each staff knows his/her precise role in case of serious disruptions in critical operations. This will ensure compliance with the BCBS principles on operational resilience.
57. **Revamp the risk management guidelines to incorporate emerging types of risk and resilience.** The risk management guidelines issued in 2009 should be updated. Strengthening the risk management guidelines by incorporating emerging types of risks like cyber risk and climate risk should be another priority.
58. **Continue implementing the governance reforms for banks.** The CBE is advised to revise the 2017 Corporate Governance guidelines based on the BCBS Corporate Governance Principles for banks (2015), enhance the role of Chief Risk Officer in banks, and strengthen the 2021 Fitness and Probity Guidelines, and respective disclosure.
59. **Formulate a policy framework on related party transactions.** Considering the criticality of related party transactions in enhancing corporate governance practices, the CBE is advised to formulate a policy framework on related party transactions for banks. The policy should cover identification, approval, reporting and disclosure of Related Party Transactions and should be compliant with the requirements of BCP 20 and International Accounting Standard 24.
60. **Introduce legal and regulatory reforms to strengthen AML/CFT compliance and effectiveness.** The Mutual Evaluation by the Eastern and Southern Africa Anti-Money Laundering Group has highlighted several deficiencies in the AML/CFT legal and regulatory framework. Formulating a mechanism at the national level to comply with the recommendations of the mutual evaluation report of 2022 will help develop a more robust AML/CFT risk management system in the country through coordinated efforts by all stakeholders.

Deposit-taking NBFIs – Cross-sector

61. **Press ahead with efforts to strengthen regulation and supervision of deposit-taking NBFIs, irrespective of the progress in the expected oversight integration and legislative reforms.** The FSRA is advised introduce sectoral regulations for building societies and SACCOs based on existing powers and guided by previous TA recommendations, not waiting for the passage of draft bills and irrespective of outcomes and timing in the expected integration of oversight responsibilities. This will strengthen the regulation and supervision of these segments as well as pave the way for uniform regulation and supervision of banks and deposit-taking NBFIs by the expected integrated supervisor irrespective of the oversight architecture implemented in the end.
62. **Enhance the quality of data submission and develop analytical tools for offsite surveillance and forward-looking assessments of risks.** Quality of data submitted by NBFIs currently suffers from infirmities. Data integrity and validity are compromised, and these should

be assured. Analytical tools will help to analyze the data and support forward-looking assessments of risk and risk profile of the supervised entities.

63. **Optimize the use of supervisory data to identify early emerging risks.** The FSRA should work with the supervised entities to improve the quality of data used in regulatory reporting and strive to use new techniques and analytical skills for developing early warning indicators. For example, the use of RegTech can significantly improve regulatory reporting.

Building Societies

64. **Building societies should be regulated and supervised more rigorously.** Prudential norms should be put in place. The Building Societies Act and regulations should be adopted and implemented in a fast-track mode.

65. **Expedite the pending conversion of a building society into a bank.** Increased clarity and a shared vision for the future of the pending conversion will help ensure the viability of the institution as well as its continued relevance and contribution to financial inclusion efforts.

Savings and Credit Cooperative Organizations (SACCOs)

66. **SACCOs should also be regulated and supervised more rigorously while considering their consolidation.** SACCO inspections should follow proportionate, risk-based procedures to better allocate staff resources and capture risks. The adoption of the new SACCO law and regulations should be expedited. Governance structure in the sector should be improved e.g., through a structured and systematic approach to building capacity of SACCO directors. Given that these institutions serve the segment of the population largely underserved by the formal financial sector, a consolidation in the sector should be considered as opposed to closing and liquidating weaker SACCOs. An orderly consolidation of smaller SACCOs will improve the viability and health of the institutions while preserving their role in the financial inclusion.

D. Supervision and regulation of insurance and retirement funds

67. **Enact the amendments to the Insurance Act and the Retirement Funds Act together with the corresponding amended regulations as a priority.** As a result of the previous TA, the Insurance Act and the Retirement Funds Act together with their corresponding regulations have been amended, these amendments though remain to be enacted. Given the time elapsed since the final drafts were submitted for the approval by the MOF (2020), the new market developments and expected changes in the regulatory architecture would require an additional revision, which the authorities are urged to expedite. These conditions hinder an effective supervision and are limiting the ability of the FSRA Insurance and Retirement Fund (IRF) department to take full advantage of the important regulatory powers and affecting the public. In fact, in the area under the Retirement Funds Act, there has been a recent case of severe damage to orphans as well as other cases are in the process to cause damage to retirement fund members (Box 2).

68. Assess the adequate level of resources needed for an effective supervision of the insurance and retirement funds and build up the staffing of the FSRA IRF department.

The limited resources of the FSRA IRF department result in reducing the effectiveness of supervision. The department is responsible for 90 legal entities and 107 individual agents in the insurance sector and 85 legal entities active in the retirement fund sector, but it is currently staffed by 10 persons and has 5 vacancies. These human resources allow for 3 to 5 annual inspections only, leaving a large number of licensed entities without an inspection for several years. In addition, the current tools supporting the supervision require manual data entry before any assessment of the findings can be done.

Box 2. Retirement Fund regulatory gaps and enforcement weaknesses affecting the public

Regulatory gaps

A beneficiary fund—that receives distributions from retirement funds when beneficiaries are minor children of a deceased retirement fund member—violated regulatory requirements, leading to the loss of over 80 percent of the trusted funds, which were all placed in one investment management firm that vanished. In addition, the remaining 20 percent of the original fund—or now 100 percent of the remaining funds—were invested in a high risk and illiquid related party instrument of the fund’s administrator. This regrettable situation, leading to a loss of all the funds around E 80 million, is a result of gaps in the Retirement Funds Act combined with weak enforcement actions. The investments guidelines for beneficiary funds, the limits on related party investments, as well as the reporting frequency are yet to be enacted as part of the amendments to the Retirement Funds Act.

Enforcement weakness

Notwithstanding these regulatory limitations, there is evidence of clear misconduct and imprudent behavior of the beneficiary fund administrator and of the trustees of the fund that remain to be dealt with and the appropriate measures enforced. Currently the fund still operates accepting new business.

Furthermore, the existing regulation requires retirement funds to have 100 percent funding ratios; however, several of the defined-benefit retirement funds continue operating underfunded—in one case with as low as a 9 percent coverage ratio—and, as a result, already having liquidity issues.

Source: Mission’s findings.

69. Enhance the use of the supervision manuals by providing capacity building and developing supportive supervision tools. The supervisory manuals are designed for a mature well-staffed supervisor requiring comprehensive processes and areas of engagement that are beyond the current capacity of the supervisor. To maximize the use of the supervisory manual, develop supervisory tools that, in an automatic manner, guide the supervisor to the areas of concern and the applications of an adequate level of supervisory intensity. At a minimum a risk profiling tool and an early warning system should be developed and used.

Insurance

70. Continue the gradual implementation of Solvency 2 adapted to the market capacity to enhance the prudential regulatory framework. The FSRA has been working over the years intensively on the regulations to improve the solvency regime, which today is a simple requirement to hold more assets than liabilities. Work aiming to implement Solvency 2 as the new prudential regime was carried out over several years and included consultations with the

market. However, since 2021 no further advancement has been done due to the consultations that indicated a market far from ready for the new capital regime introduction. At the same time, the gradual introduction of a risk-based capital regime that considers prevailing market conditions and capacity remains a priority to support effective supervision.

71. Develop regulations for the operation of specialized insurance pools in accordance with international good practices to cover disaster risks, especially in agriculture. The agriculture sector has an important position in the nation’s economy with a direct contribution of 8 percent of GDP (2021). Furthermore, other economic activities accounting for 32 percent of GDP are closely related to agriculture, including soft drink concentrates, forestry, and sugar processing. Agriculture provides employment to 12 percent of the labor force with the agriculture-related industry employing an additional 23.5 percent (2020). Regrettably, these important sectors of the economy are the ones primarily affected by hydrometeorological hazards in the form of seasonal flooding, periods of drought, as well as violent storms and forest fires (Box 3). Notwithstanding the exposure of the country to natural hazards affecting the livelihood of a large segment of the population dedicated to agriculture as well as the economic welfare of the country, insurance against these hazards is non-existent in the market.¹⁹ The use of insurance pools for disaster risks would allow to exhaust the local capacity and position the sector for better negotiation to attract international reinsurers due to better risk management and a larger volume of business.

Box 3. Recurrence and severity of draughts and their impact on the Kingdom of Eswatini

A Standardized Precipitation Index (SPI) computed from long-term precipitation data measured from six meteorological stations was used to determine drought occurrence and severity. Python software (Version 3.6) was applied on the SPI values to predict the recurrence of drought events over time in years. The SPI showed that in the Highveld, 42 percent of the droughts were moderate, 32 percent were severe and the remaining 26 percent, which all occurred post 1980, were extreme (SPI -2.34 to -2.82). The Middleveld had an even proportion of drought categories (29–35 percent). The Lowveld recorded 62 percent of moderate, 8 percent severe and 30 percent extreme droughts of which 70 percent occurred post 2000. Moderate droughts were found to recur every 4–5 years while extreme droughts are expected every 13–21 years. These findings are essential for mitigation and adaptation measures geared toward the adverse effects of droughts.

As noted in the climate knowledge portal of the World Bank: “Consequences of severe, recent droughts for the country have resulted in 25 percent of the population being vulnerable and acknowledged as food and water insecure, with many households still reliant on welfare and social safety nets”. The regions of Eswatini with the highest prevalence of food insecurity are the areas most affected by the drought.

Source:

<https://www.sciencedirect.com/science/article/pii/S2405844020325500>
<https://climateknowledgeportal.worldbank.org/country/eswatini/vulnerability>.

72. Group-wide supervision needs to be developed following Insurance Core Principles. Notwithstanding the presence of insurance groups—local and cross-border—a group-wide supervision framework (as required by ICPs 23 and 25) is not in place. The supervision is carried

¹⁹ At the end of 2022, agriculture insurance is reported to have collected 500 USD in premium only.

out at legal entity level. However, in the presence of insurance groups, certain risks can be overseen, including double gearing of capital, contagions risks, reputational risks, as well as ineffective intragroup reinsurance or coinsurance agreements. In addition, when a group operates cross-border, while there is communication with the relevant supervisors, no arrangements in case of a crisis are in place.

73. **Enhance the reinsurance supervision.** Reinsurance is an important risk transfer instrument allowing insurance companies to provide protection to the country that goes beyond their financial capacity by using the balance sheet of reinsurers. However, reinsurance can also be misused to hide insolvencies, avoid tax payments transferring profits outside the country, etc. It is therefore critical to have a comprehensive reinsurance supervision framework that currently is not part of the FSRA insurance supervisory framework.

74. **In line with the 2021 Reinsurance Bill, issue a reinsurance guideline,** including with the following requirements and actions:

- Any reinsurer active in the country should be registered. Besides the formal information of the reinsurer, the registration requirements could include an annual good standing letter from the home supervisor, and minimal credit rating.
- The FSRA should enter into MoUs with the regulators where the critical reinsurers active in Eswatini are domiciled to be able to get supervisory confidential information on the reinsurer if needed.
- To better assess the effectiveness and impact of complex contracts insurers should be required to request from the reinsurer examples of claims and the protection effect and if pertinent made them available for the FSRA.
- To avoid the inappropriate use of reinsurance to reduce reserve requirements, a minimum risk transfer threshold should be required and for relevant reserve relief volume, proof of the test calculation should be requested by the FSRA

Retirement Funds

75. **Develop and enact the regulation of beneficiary funds.** The regulation of beneficiary funds is non-existent but three of these funds have been licensed. The licensing of these funds was carried out under the Retirement Funds Act but had verbal agreements on the reporting requirements only, allowing them to submit annual reporting rather than the quarterly reporting requirement as set out in the Act. As discussed in Box 2, the regulatory ambiguity was recently misused by one of the beneficiary funds, resulting in significant losses to its beneficiaries (orphans). The regulation should take into consideration appropriate levels of investment risk and liquidity of the assets according to the function of the beneficiary funds e.g., in providing income to orphans while underage.

76. **Appoint a curator or judicial administrator in the presence of critical misconduct in a timely manner.** The appointment of a curator or a judicial administrator in the presence of critical misconduct in a beneficiary fund has not been undertaken in a timely manner.

Notwithstanding the regulatory limitations, there is evidence of clear misconduct and imprudent behavior of a beneficiary fund’s administrator and its trustees, where both the administrator and trustees remain operating the beneficiary fund and accepting new business. Using the powers vested in the FSRA and following its Intervention Policy of 2016, the appointment of a curator and/ or a judicial administrator is legally permissible once the FSRA uncovers misconduct or violation of the regulation. This measure will protect IRF members from possible or further financial damage, also it will help restore the proper behavior of the respective IRF.

77. **Enforce the compliance of sponsors with the timely and complete payment of the committed contribution to the retirement funds.** The FSRA has difficulties enforcing the compliance of sponsors with their obligations with respect to the payment of the retirement fund contributions, thus leaving the members with reduced retirement income and unearned investment returns. The insufficient and/or overdue contribution payments must be addressed. Consider introducing interest charges on overdue contributions as well as name and shame measures as part of the enforcement efforts.

III. TECHNICAL ASSISTANCE ROADMAP

78. **TARM was developed in cooperation with the authorities and in consultation with IMF departments.** Based on discussions with the authorities and resulting conclusions, the mission developed a comprehensive list of TA recommendations in the five areas. Key recommendations were also shared with relevant MCM staff and with the area department team.

79. **TARM proposes a medium- to long-term TA program to build the authorities’ capacity to address risks and vulnerabilities in the financial system.** The mission developed a prioritized set of actions that need to be taken by the authorities to address identified vulnerabilities and to strengthen the financial system in the next three years. The proposed TARM presents, in one integrated table, the main strategic recommendations and the supporting TA to address the main risks and vulnerabilities identified in the baseline diagnostic review, grouped by the five topical areas (Table 7). This comprehensive TARM presents the following:

- Key Vulnerability/ Gap in Oversight: Identified by the FSSR diagnostic review with high probability to affect the well-functioning of the financial system if left unaddressed, and which will benefit from targeted TA in most cases.
- Recommendation: Action by the authorities to address the vulnerability/ gap in oversight, in most cases to be supported by TA.
- TA Activity: Indication of whether for the implementation of an FSSR recommendation TA delivery is “needed” or “not needed”.
- Responsible Agency: Those institutions that are primarily responsible to implement a given recommendation for TA.

- Priority: an indication of the level of priority associated with the TA activity (high, medium, low).
- Timeframe: An indication of the timeline when the TA activity should take place (short-term (ST), medium-term (MT), long-term (LT)).
- Prerequisites: An indication of what is expected to be in place in time for the respective activity to start as well as to add value as intended.

80. The priority TA—a subset of the TARM that can help the authorities bridge identified capacity gaps in pursuing the key recommendations listed in Table 1—can be summarized as following:

- *Immediate priority TA that can help the authorities implement the following key recommendations:* (i) preparing amendments to the existing acts and new bills as a single package for the approval and adoption by the newly elected Parliament, (ii) strengthening supervisory capacity in oversight and enforcement of market conduct in CMI and CI, and (iii) enhancing NBF offsite surveillance and forward-looking assessments of risks.
- *Priority TA that can help the authorities implement the following key recommendations in each of the five diagnostic areas:*
 - Financial stability, systemic risk, macroprudential frameworks and tools, including stress testing:*** Undertaking a stocktaking of data, especially in NBFs; developing a Risk Dashboard; overhauling the stress-testing framework; and developing D-SIFI designation criteria, starting with banks and extending to NBFs.
 - Financial safety net and crisis management:*** Running financial projections for the Deposit Protection Fund; developing protocols for an interagency crisis management panel; finalizing emergency liquidity assistance procedures; and updating the CBE-SARB MoU with provisions for recovery and resolution planning and crisis management.
 - Regulation and supervision of banks and other deposit-taking credit and savings institutions:*** Advancing the implementation of Basel requirements, including those for bank liquidity and Pillar 2; advancing banks' corporate governance reforms; and strengthening the regulation and supervision of deposit-taking NBFs.
 - Regulation and supervision of insurance and retirement funds:*** Enhancing the enforcement of IRF regulations; developing a risk-based supervision framework with automated supervisory tools; and introducing a risk-based solvency regime for insurers.
 - Financial, external, and government sector statistics:*** Improving source data for OFCs; compiling MFS and financial soundness indicators for OFCs and deposit-takers; expanding the coverage of MFS for Other Depository Corporations to include deposit-taking NBFs; and improving the international investment position statistics and government finance statistics.

Table 7. Eswatini FSSR TA Roadmap

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
Immediate actions required in the legislative reforms, institutional coordination, and oversight capacity building						
Delayed adoption of up-to-date legislation related to oversight of the financial sector, leading to recent cases of failures and misconduct in financial institutions	<ul style="list-style-type: none"> - Harmonize amendments to the existing acts and new bills, as listed in Table 7, and prepare them, ideally as a single package, for presentation to the new Government and Parliament in the follow-up of the 2023 elections. - For those bills with over a year since the last drafting, assess if new market developments need to be incorporated (see Additional Considerations in Table 7) - Formulate and implement the respective implementing regulations. 	Needed	CBE and FSRA	H	ST	<ul style="list-style-type: none"> - Finalize expected changes in the regulatory architecture in line with the announced integration of the oversight responsibilities of the CBE and FSRA. - Willingness to take forward the legal reforms expeditiously. - Complete the harmonization of the amendments to the existing acts and new bills as listed in Table 5 into a single package to be presented to the new Government and Parliament in the follow-up of the 2023 elections.
Failure in coordination on financial stability and financial sector oversight issues in timely and effective manner	<ul style="list-style-type: none"> - Start more systematically coordinating on how best to capture and preemptively address risks to financial stability - Join efforts to harmonize of the amendments to the existing acts and new bills as listed in Table 7 into a single package to be presented to the new Government and Parliament in the follow-up to the 2023 elections. - Resume coordination efforts and activities under the existing CBE-FSRA MoU. - Establish a joint project management function for the implementation of the TARM proposed by the FSSR diagnostic. 	Not needed	CBE and FSRA	H	ST	Willingness to undertake the coordination in the required representation, frequency, and intensity

²⁰ Timeframe: **ST** – short-term, less than six months; **MT** – medium-term, with results around 18 months; **LT** – long-term, with results around 30 months.

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
Lack of expertise and skills in bank and NBFIs supervision and enforcement of market conduct, especially in that of Capital Market Intermediaries and Credit Institutions	- As the priority, build capacity of NBFIs supervisors in financial oversight and enforcement of market conduct of Capital Market Intermediaries and Credit Institutions.	Needed	CBE and FSRA	H	ST and continuously thereafter	Request the TA as the priority, not waiting for the diagnostic to complete its course.
	- Continuously work on strengthening the role, staffing, and capacity of bank and NBFIs supervisors to support developing a full-fledged regular monitoring of supervised entities.	Needed	CBE and FSRA	M	Continuously	The CBE and FSRA should promote self-learning by staff, as well as utilize opportunities for training at the IMF (AFS, ATI, HQ-led training, etc.) and other partners (SARB, the World Bank, etc.)
	- Continuously work on enhancing the level of capabilities in emerging areas, especially in data analytics, RegTech, SupTech, crypto assets, and management of cyber and climate risks	Needed	CBE and FSRA	L	Continuously	
NBFIs data weaknesses and lack of forward-looking analysis to identify early warning risks	- Enhance validity and integrity of data submission by NBFIs. - Develop analytical tools for offsite surveillance. - Enhance the FSRA and CBE powers to assess the quality of the information provided, request supervised entities to correct it, and to improve their management information systems, if needed.	Needed	CBE and FSRA	H	ST	A detailed analysis of the contents and coverage of various returns should be done by the FSRA and CBE, after which TA can be provided to help the authorities to bridge the gaps.
Financial stability, macroprudential policy frameworks, and systemic risk monitoring (Section II.A)						
Institutional arrangements, macroprudential framework and systemic risk monitoring						
Low number of staff risks delaying the implementation of the new macroprudential mandate	- Review and augment staffing of the FSU. - Consider creating a new position as deputy head of the FSU to allow the head of the unit to focus more on implementing the new macroprudential functions of the CBE.	Not needed	CBE	H	MT	Willingness to increase resources, clarity on the integrated oversight, and the adoption of the Financial Stability Bill.
Current coordination failures risk to repeat under the new macroprudential mandate	Calibrate the functions of the FSRA to prepare for its new role related to the macroprudential policy implementation as the Financial Stability Bill is adopted.	Needed	FSRA and CBE	H	MT	- Willingness of the CBE to grant to the FSRA and the FSRA to adapt the new role. - Cooperation between the CBE and FSRA.

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
						- Adoption of the Financial Stability Bill.
Lack of regular technical discussions between the CBE and FSRA	- Resume the macroprudential Technical Committee meetings between the CBE (FSU and BSD) and the FSRA. - Promote a more involved role of the FSRA in the financial stability work of the CBE, for example, in the preparatory phase of the FSR.	Not needed	CBE and FSRA	H	ST	Willingness to undertake the coordination in the required representation, frequency, and intensity.
Data gaps make it difficult to obtain a consolidated view of the financial sector and could hinder an effective macroprudential role	- Undertake a thorough stocktaking of data availability, focusing on the non-banking area, in order to identify data gaps. - The stocktaking will be important in the preparatory work to develop macroprudential tools and should build on the work done by the IMF STA in this area.	Needed	CBE and FSRA	H	MT	Cooperation between the CBE and FSRA.
Less effective systemic risks monitoring, relying on few monitoring tools	Initiate the planned development of a risk dashboard, taking into account the available data, in order to supplement existing analytical tools. Consider including indicators that capture interconnectedness.	Needed	CBE	H	MT	Data gaps have been identified in the previous stocktaking.
While containing a wealth of information, the messages in the FSR needs sharpening	- Revamp the FSR in order to make assessments and recommendations clearer. - Consider increasing the periodicity of the publication to two reports per year.	Needed	CBE	H	MT	Willingness to go through the process of revamping the product.
Uncertainty related to the new macroprudential framework	Develop the criteria guiding decisions on D-SIFI designation in a phased manner, starting with the commercial banks, and thereafter, in cooperation with the FSRA, the non-banking sector.	Needed	CBE	H	MT	- Data gaps have been identified. - Adoption of the Financial Stability Bill.
Augmented risks related to household indebtedness	Undertake a gradual implementation of macroprudential policy instruments, starting with the measures targeting household indebtedness, followed by more broad-based capital-based tools.	Needed	CBE	H	MT	- Stock taking of data needs completed. - Adoption of the Financial Stability Bill.
Stress testing						

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
The stress tests conducted by the CBE need an overhaul and strengthening	Develop the macroprudential stress testing framework by introducing macrofinancial scenarios and satellite models	Needed	CBE	H	MT	<ul style="list-style-type: none"> - Stock taking of data needs completed. - Willingness of the CBE to assign more resources to the stress testing.
Microprudential stress tests not implemented	Require banks conduct bottom-up stress tests in the context of the SREP, to supplement the macroprudential stress tests	Needed	CBE	H	MT	Willingness of the CBE to assign resources in BSD to the stress testing.
Not capturing risks in non-banking sector	Include the non-banking sector in the overhaul of the stress-testing framework and expand it to analyze interconnectedness in more details	Needed	CBE and FSRA	H	LT	<ul style="list-style-type: none"> - Stress testing machinery for the banks is built and effectively being used. - Stock taking of data needs completed and relevant data collected. - Cooperation between the CBE and FSRA and the willingness of both to dedicate resources.
No regional cooperation on stress testing.	Discuss the results of stress testing with SARB in order to increase its understanding of how the South African regulator considers resilience in the banking system it supervises	Not needed	CBE	M	LT	Revised stress testing framework has been implemented.
Financial safety net and crisis management (Section II.B)						
Deposit Protection						
Underestimate or lack of understanding of DPF funding sources and uses	Run financial projections and scenarios for the DPF and solicit seed capital contributions to build initial capital	Needed	CBE	H	ST	<ul style="list-style-type: none"> - Begin to develop a model for projecting the DPF financial position for the next 10 years, under base and pessimistic scenarios. - Initiate discussions with WB, KfW, MOF regarding seed funding. - Estimate bank premium percent and base as the CBE discussion paper does not

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
						speculate on what that premium level might be.
Inadequacies or inconsistencies in the draft legislation	Policy and legal analysis for finalizing the amended Financial Institutions Act	Needed	CBE	H	ST	Forward final legal provisions in the draft amended Financial Institutions Act to the IMF Legal Department for updated desk review as it is not clear if the IMF reviewed the most recent draft.
Gaps in deposit insurance operations	Conduct an IADI Deposit Insurance Core Principles assessment with follow through technical assistance, as needed.	Needed	CBE	M	LT	Begin operationalizing of the DPF sufficiently for a worthwhile review (thus the LT timeframe).
Recovery, Resolution, and Crisis Management						
Lack of planning and potential delays in recovery or resolution	Guide the sole national bank (Eswatini Bank) in development of recovery and resolution plans. Then guide Swaziland Building Society in the preparation of its recovery and resolution plan.	Needed	CBE (Eswatini Bank) and FSRA (SBS)	M	MT	Begin to compile information for underlying content in the recovery and resolution plans.
Potential for being ill-prepared in the midst of a crisis	Finalize the crisis management binder	Needed	CBE	M	MT	Continued progress in developing underlying elements for the binder.
Lack of coordination between safety net participants	Develop protocols for an interagency crisis management committee, including information sharing, communications, and initiation of operations	Needed	CBE	H	MT	Draft MoU with proposed protocols between committee members (same as proposed in the Financial Stability Bill).
Inability to operationalize resolution tools	Develop a resolution manual	Needed	CBE	M	LT	Further advance of legal reforms in the Financial Institution Bill (thus LT).
Lack of preparation for resolving a cross-border subsidiary	Amend the CBE-SARB MoU and otherwise prepare for a cross-border resolution	Needed	CBE	H	MT	Consider what needs to be updated in the MoU based on changes since 2010 as per discussion with SARB during the mission.

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
Emergency Liquidity Assistance						
Bank lending operations lack consistency and risk a loss	Finalize procedures for emergency liquidity assistance, including in resolution	Needed	CBE	H	ST	Determine timing, whether will await passage of the amended CBE Act or finalize procedures before its passage.
Supervision and regulation of deposit-taking financial institutions (Section II.C)						
Failures in oversight and enforcement of market conduct	Expedite the pending conversion of a building society into a bank	Not needed	MOF	H	ST	SBS's willingness to go through the process, possibly with an encouragement from MOF
Problems in AML/CFT compliance	Ensure full compliance with recommendations by the Mutual Evaluation conducted by ESAAMLG in 2022, especially in issuing guidance related to Ultimate Beneficial Ownership, regulatory framework regarding Virtual Service Providers, framework for domestic consolidated supervision from AML/CFT perspective, and treatment of domestic Politically Exposed Persons.	Needed	CBE-FSRA	H	ST	World Bank had initiated TA in this area, which can be continued to complete the process
No recent comprehensive assessment of the compliance with Basel Core Principles for Effective Banking Supervision	Undertake a comprehensive assessment of the BCPs, identify gaps and prepare a roadmap for bridging the gaps and thereby enhancing the regulation and supervision of the financial sector. This may be done after the BCBS completes the revision of the BCPs	Not Needed	CBE	M	MT	A self-assessment of the BCPs by CBE supervisors after the BCBS completes the revision of the Core Principles.
Bank Assurance Function and Governance Practices						
Risk management guidelines and Related Party transactions framework have not been updated/ streamlined to reflect the	<ul style="list-style-type: none"> - Revamp risk management guidelines to incorporate emerging types of risks. - Strengthen regulation on exposures to related parties to cover all such exposures, ensure Board approved policies and operational procedures for approvals, reporting and disclosures. 	Needed	CBE	H	ST	Share drafted amendments in the respective guidelines and regulations prior to the TA

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
inherent risk in these areas						
Delay in completion of the Governance regulatory reform process	<ul style="list-style-type: none"> - Strengthen the 2017 Corporate Governance guidelines based on BCBS Corporate Governance Principles for banks (2015). - Enhance the role of Chief Risk Officer in banks. - Strengthen the 2021 Fitness and Probity Guidelines and respective disclosures. 	Needed	CBE	H	ST	Share drafted amendments in the respective guidelines and regulations prior to the TA.
Bank Regulatory and Supervisory Reforms						
Potential infringement into the CBE's supervisory powers (signaled by the MOF's ruling of 2021 to reinstate Farmers Bank (Pty) Ltd.'s license that the CBE previously revoked in 2020)	Once the amended FIA is adopted, review the banking licensing framework and processes with the goal to determine if there are still gaps vis-a-vis the new FIA and the relevant international standards and practices.	Needed	CBE	H	ST, following the adoption of the amended FIA	Adoption by the CBE of the previous TA recommendations on licensing framework and processes for banks, and supervisory assessment tools (guidance and checklists).
Pending full implementation of Pillars 2 and 3 of Basel II	Undertake a comprehensive review of the implementation of Pillar 2 especially the Supervisory Review and Evaluation Process (SREP), including the coverage of emerging risks, integration of business strategy with Risk Appetite statements and provision of prescribing additional capital for Pillar 2 risks. Improve the contents and coverage of the Pillar 3 disclosures.	Needed	CBE	H	MT	Adoption of the amendments of the Financial Institutions Act is required for prescription of additional capital under Pillar 2.
Absence of liquidity stress testing for the banks in view of concentration of deposits	Implement liquidity requirements of Basel III in a calibrated manner. In particular, the liquidity regulations are needed targeting the following: (i) develop bank contingency funding plans; (ii) undertake a quantitative assessment (QIS) of the introduction of the Liquidity Coverage Ratio;	Needed	CBE	H	MT	Collection of data by CBE supervisors to facilitate the TA

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
	and (iii) longer-term plans to diversify sources of funding by the banks.					
Implementation problems in International Financial Reporting Standards (IFRS)	Expected Credit Loss (ECL) models under IFRS 9 developed by banks should be assessed by supervisors and CBE needs TA for this.	Needed	CBE	H	ST	Submission of latest ECL Models by banks to the CBE
Inadequate Business Continuity and Disaster Recovery Planning	Assess the quality of Business Continuity and Disaster Recovery plans of banks and issue guidance for enhancing the quality of these plans in order to strengthen operational resilience	Not needed	CBE	M	MT	Obtaining and analyzing the plans from all the banks
NBFI Regulation and Supervision (Building Societies and SACCOs)						
The current legal and operational framework is not conducive for a fast and efficient supervision of NBFIs	Review the FSRA institutional setup and legal framework, including but not limited to (i) the FSRA Act; (ii) sectoral laws and regulations for Building Societies and SACCOS	Needed	FSRA	H	ST	Understanding the coverage of the various draft bills, which are pending at various stages
Governance problems and data weaknesses and lack of forward-looking analysis to identify early warning risks	<ul style="list-style-type: none"> - Support improving governance structure. - Enhance validity and integrity of data submission. - Develop analytical tools for offsite surveillance. - Enhance the FSRA powers to assess the quality of the information provided, request supervised entities to correct it, and to improve their management information systems, if needed. 	Needed	FSRA	H	ST	A detailed analysis of the contents and coverage of various returns should be done by the FSRA, after which the TA mission can take it forward
Supervision and regulation of insurance and retirement funds (Section II.D)						
Supervision and Regulation – NBFI cross-sector						
The limited resources of the IRF department undermine the	Assess the staffing needs against the intensity of supervision required	Not needed	FSRA Board	H	ST	Implement the restructuring, and risk-based supervision framework.

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
effectiveness of supervision						
	Develop a risk-based supervision approach with the necessary supervisory tools including a risk profiling tool to guide the supervisory priorities	Needed	FSRA	H	MT	Become familiar with the existing supervision manual.
The licensing renewal process occupies significant resources	Consider automating the licensing renewal process	Not Needed	FSRA	H	ST	Budget should be available to implement the respective automation.
Weak enforcement process	Strengthen the enforcement framework, including the timely appointment of judicial administrators and/or curators.	Not needed	MOF/ FSRA	H	ST	<p>The draft amendment to the insurance Act should be enacted to allow the FSRA Act to provide for the appointment of a curator and/or a judicial administrator.</p> <p>For entities licensed under the Retirement funds Act, the FSRA is already allowed to appoint a curator and/or a judicial administrator.</p>
There is no macroprudential surveillance framework for insurers and pension funds	Develop a macroprudential surveillance framework for insures and retirement funds	Needed	FSRA	M	MT	Work together with the CBE stability unit to complement and support their work.
Liquidation regulation of retirement funds and insurers needs enhancements	Issue the rules and powers to the appointed curator of an ailing insurer or retirement fund	Not needed	MOF/FSRA	H	ST	<p>The draft amendment to the insurance Act should be enacted to allow the FSRA Act to provide for the appointment of a curator and/or liquidator</p> <p>Understand the technical details of recovery and resolution of insurers and retirement funds.</p>

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
Market conduct regulation is in place, but the necessary supervision guidelines and SOPs are missing	Develop the supervision and inspection manuals and SOPs for market conduct supervision and inspection	Needed	FSRA	H	MT	Understand the regulatory framework on market conduct
Insurance Supervision and Regulation						
Operating insurance groups are not subject to group-wide supervision	Develop the regulation and implement it to carry out group-wide supervision of insurance groups	Needed	FSRA	H	MT	The Insurance Act together with the corresponding amended regulations have been enacted after a review for possible enhancements, including the power to supervise holding companies of insurers as well as outsources functions.
The current capital regime is not appropriate for insurance financial resilience	Introduce gradually a market conditions adapted risk-based capital regime	Needed	FSRA	H	MT	Use the existing draft framework on risk-based capital.
Reinsurance supervision is light touch and needs to be tighten following the adoption of the 2023 Reinsurance Bill	Enhance the reinsurance supervision	Needed	FSRA	M	ST	Understand the requirements under the 2023 Reinsurance Bill
The regulation of medical insurance is not in place	Develop bespoke regulation for medical insurance and medical schemes	Needed	FSRA	M	MT	Engagement of all stakeholders and relevant ministries.
Insurance pools are necessary to insure certain risks, but the regulation is non-existent	Develop regulations for the operation of insurance pools	Needed	FSRA	M	ST	Carry out an assessment on the needs for natural hazards and man-made disasters.
Microinsurers' operational costs should allow for the provision of affordable products for	Maintain the microinsurers' operational costs low by postponing or exempting microinsurers from IFRS17 compliant reporting and revise if AML/CFT strict requirements apply to them	Not needed	FSRA	H	ST	Assess the benefits of having IFRS 17 compliant reporting from microinsurers.

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
the low-income population	without creating incommensurate risk to the objectives of the FSRA					Evaluate the AML/CFT risk created by their operations.
The offsite supervision needs to be adapted under the new accounting standards	Built capacity on the supervisory assessment of the financial statements under IFRS 17 including the revision of the offsite supervision framework	Needed	FSRA	H	ST	The FSRA's consultant has already developed new return templates and provided to the market the assumptions to be used for solvency purposes. The IFRS 17 financial returns have been received by the FSRA.
Retirement Funds Supervision and Regulation						
The compliance of sponsors with timely and complete payment of the committed contribution to the retirement funds are not enforced	Introduce interest charges on overdue contributions and enhance transparency requirements to the public, including name and shame measures for delinquent sponsors	Not needed	FSRA	H	ST	The effect of a possible enhanced transparency should be assessed
The ombudsman operations are not legally supported	Enact the relevant Ombudsman legislation	Not needed	MOF	M	ST	Willingness to pass legislation.
The regulation of beneficiary funds is non-existing	Develop the regulation of beneficiary funds and implement it	Not needed	MOF/ FSRA	H	ST	Understand the function of beneficiary funds.
The closing or dissolving of participating retirement funds operating under an umbrella fund is costly and lengthy	Develop regulation for umbrella funds to close or dissolve participating retirement funds.	Not needed	MOF/ FSRA	H	ST	Assess the capacity of existing umbrella funds to close and/or dissolve participating funds respecting consumer protection standards.
Financial, External, and Government Sector Statistics (Annex I and Annex II)						
Financial sector statistics						

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
Lack of monetary and financial statistics (MFS) for OFCs	Compile MFS for OFCs, using the standardized report form (SRF) 4SR based on the MFSMCG.	Needed	CBE and FSRA	H	ST	Adequate source data for OFCs with breakdown of financial assets and liabilities by type of financial instruments and counterpart sector.
Lack of financial soundness indicators (FSIs) for OFCs	Compile FSIs for OFCs based on the 2019 FSIs Compilation Guide.	Needed	CBE and FSRA	H	ST	Adequate source data for OFCs with breakdown by type of financial instruments, counterpart sector, and by type of income and expenses as set forth in the 2019 FSIs Guide.
Some FSIs for deposit takers (DTs) are not available to support assessment of the financial sector soundness	Compile additional FSIs for DTs based on the 2019 FSIs Guide.	Needed	CBE	H	MT	Additional source data for DTs to compile missing FSIs.
Incomplete coverage of MFS for other depository corporations (ODCs)	Expand the coverage of MFS for ODCs (SRF 2SR) to include building societies and SACCOS.	Needed	CBE	H	MT	Adequate source data for building societies and SACCOS with breakdown of financial assets and liabilities by type of financial instruments and counterpart sector with monthly frequency.
External sector statistics						
Shortcomings of international investment position (IIP) statement used in the BSA construction	Improve IIP statistics as recommended by the External Sector Statistics TA Mission (February 10–21, 2020).	Needed	CBE	H	MT	Obtaining financial statements of direct investment enterprises, incorporating insurance services related stocks data, and developing new reliable estimation techniques for trade credit and currency and deposits of other sector, including developing a consistent and integrated data compilation

Key Vulnerability/ Gap in Oversight	Recommendation	Is TA needed?	Responsible Agency	Priority	Completion Timeframe ²⁰	Prerequisites
						framework for the trade credits and currency and deposits in the financial account, and ensure the consistency of flows and stocks.
Government sector statistics						
Lack of comprehensive government finance statistics (GFS) for the BSA construction	Improve GFS as recommended by the Government Finance Statistics and Public Sector Debt Statistics TA Mission (July 6–12, 2022)	Needed	MOF	H	MT	Adequate data on local governments and public entities to expand the coverage of GFS and improved data frequency and reporting timeliness, and adequate reporting of expenditure classification by functions of government (COFOG).

ANNEX I. ASSESSMENT OF ESWATINI'S FINANCIAL, EXTERNAL, AND GOVERNMENT SECTOR STATISTICS

This annex presents the status of the Kingdom of Eswatini's financial soundness indicators (FSIs), monetary and financial statistics (MFS), international investment positions (IIP), and government finance statistics (GFS). MFS, IIP, and GFS are the underlying datasets for the construction of the Balance Sheet Approach (BSA) matrix.²¹

A. Financial Soundness Indicators

1. **The Central Bank of Eswatini (CBE) reports FSIs data to the IMF's Statistics Department (STA) for dissemination on the IMF's [FSIs data portal on a quarterly basis](#).** The reported data based on the (old) *2006 FSIs Guide* include 13 core and 6 additional FSIs for deposit-takers (DTs) and two additional FSIs for real estate markets. The reported FSIs for DTs cover five categories of CAMELS Framework (capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk), which are useful for financial sector stability analysis. There was a large data gap as the latest disseminated data refer to 2020Q2, while the CBE was migrating to the new FSIs templates to implement the (new) *2019 FSIs Compilation Guide (2019 FSIs Guide)*.
2. **The CBE has successfully migrated to the new FSIs reporting templates to compile FSIs based on the *2019 FSIs Guide*.** The CBE officials have mapped source data for DTs to the new FSIs templates starting with 2020Q3 data and have sent to the updated compilation spreadsheets to STA for review. The CBE officials have addressed STA's comments to improve the data mapping and have submitted the updated FSIs to STA for dissemination, which has closed the large data gap as the disseminated data are available through 2023Q1. The updated data also provide better input for assessing the financial sector soundness.²² The FSIs disseminated on the FSIs data portal are presented Table A.1 below.
3. **Eswatini's FSIs for DTs are compiled based on domestic location (DL) basis, which is appropriate based on the structure of the banking sector.** No bank in Eswatini has subsidiaries or foreign branches and, therefore, group data consolidation is not applicable. Although the *2019 FSIs Guide* recommends using cross border, cross sector, domestically incorporated method of consolidation, it also provides DL as an alternative method when resident DTs have no nonresident branches or subsidiaries or have ones that are

²¹ MFS and FSIs are the two key sets of statistics collected and disseminated by the IMF through its Statistics Department, which are useful for financial sector stability analysis. In addition, the IMF developed BSA matrices, compiling key sectoral balance sheets in member countries' economies, as a starting point to diagnose risks and potential transmission channels of shocks, setting the stage for deeper analysis (see IMF Policy Paper, June 2015, "Balance Sheet Analysis in Fund Surveillance").

²² The updated FSIs include a new FSI compiled based on Basel III (Common Equity Tier 1 capital to risk-weighted assets).

so small that they do not materially affect the FSIs. For Eswatini, DL covers resident DTs along with their resident branches.

4. **The current compilation of FSIs for DTs can be further improved to support financial sector stability analysis.** The areas for improvement include (1) compiling new FSIs for DTs based on the *2019 FSIs Guide*; (2) clarifying the definition and calculation of some underlying series, including those compiled based on Basel III, that are used in the FSIs compilation (such as, nonperforming loans, liquid assets, short-term liabilities etc.); (3) strengthening the source data checking and validation procedures to improve data quality; (4) exploring the possibility of including other DTs (such as building society) in the FSIs compilation; and (5) updating the FSIs metadata to accurately reflect the accounting and regulatory frameworks underlying FSIs data and any deviations from the *2019 FSIs Guide* to better inform data users of the data and compilation practices. In addition, the authorities are expected to compile the FSIs for OFCs and this will complete the sectoral coverage of FSIs for the financial corporation sector (see section below on statistics for OFCs).

B. Monetary and Financial Statistics

5. **The CBE reports monthly monetary statistics, using the standardized report forms (SRFs) for the central bank and other depository corporations (ODCs), for dissemination by STA in the *International Financial Statistics (IFS)*.** The SRFs 1SR for the central bank and 2SR for ODCs are compiled broadly in line with the methodology of the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)* in terms of classification of financial instruments, asset/liability valuation, and sectoring of institutional units. However, the institutional coverage of the SRF 2SR is incomplete as it covers only commercial banks, while accrued interest is not incorporated in the outstanding amounts of the financial assets or liabilities according to the *MFSMCG*.

6. **Coverage of the SRF 2SR for ODCs can be expanded to include building society, money market funds (MMFs), and deposit-taking savings and credit cooperatives (SACCOs).** Based on the 2021 TA FSIs mission's findings, the SACCOs and the building society combined accounted for 16.4 percent of the ODCs' total assets (nearly 8 percent of GDP) as of end-2020. Source data for these additional ODCs should be sufficient in terms of breakdowns to enable their inclusion in the SRF 2SR compilation. Based on the previous TA missions' findings, source data for these additional ODCs were not adequate in terms of required breakdowns, data frequency, and reporting timeliness. In addition, the coverage of the reporting population for certain accounting periods was not complete due to a long reporting delay by some institutions. As with the FSIs, the compilation of MFS for the OFCs is a high priority.

C. Statistics for Other Financial Corporations

7. **The OFCs sector in Eswatini has become increasingly important for macroprudential surveillance in terms of its role and its market share.** Based on the

2021 TA FSIs mission’s findings, the OFCs accounted for 61.2 percent of the financial system assets (excluding the CBE) and 73.7 percent of GDP as of end-2020. This was much larger than the banking sector’s market share. Therefore, the compilation of FSIs and MFS for OFCs will provide an additional useful input for financial sector surveillance. In addition, the availability of statistics for OFCs will complete the sectoral coverage of Eswatini’s MFS and FSIs, thus improving the contribution of financial sector statistics for policy analysis. The OFCs basically comprise non-bank financial institutions (NBFIs), including insurance companies, pension funds, investment companies, savings cooperatives, and credit institutions that are regulated by FSRA. Therefore, source data for compiling MFS and FSIs for OFCs should be obtained from FSRA.

8. **The mission reviewed the statistical returns (without data) currently used by the FSRA to collect data from OFCs and found that they provide most of the required details for compiling MFS and FSIs based on the internally accepted standards.** A few items need additional breakdown by type of assets/liabilities and by counterpart sector for appropriate classification in the MFS and FSIs. For example, insurance and retirement funds’ statement of financial positions lack required breakdown of (1) “deposits” (assets) by type (transferable deposit and other deposits); (2) “money market and debt” by type of assets (such as loans and debt securities); and (3) some of “invested assets” by counterpart sector. One of TA objectives could be to assist with improving these source data for OFCs. The statistical returns for retirement funds do not capture financial liabilities.

9. **Based on the 2021 TA FSIs mission, the CBE receives some data for OFCs from the FSRA, but the data were not adequate for compiling MFS and FSIs for the OFCs sector and subsector.** It would be beneficial if data that have been collected by FSRA could be shared with the mission with an explanation whether the data have been collected using the statistical returns that is discussed in the preceding paragraph.

Monetary and Financial Statistics for OFCs

10. **The MFS for OFCs is to be compiled, using the SRF 4SR for OFCs based on the MFSMCG.** Required data source includes a detailed statement of financial positions and its supplement information on the OFCs’ assets and liabilities that provide breakdown by type of financial instruments, counterpart sector, and by currency (foreign currency and domestic currency as applicable).

Financial Soundness Indicators for OFCs

11. **FSIs for OFCs are to be compiled, using the new FSIs templates, based on the 2019 FSIs Guide.** FSIs for OFCs include FSIs for the whole OFCs sector and FSIs for its major subsectors, namely insurance corporations (some FSIs are compiled for life and non-life insurance corporations separately), pension funds, and money market funds. Required data source include detailed statements of financial positions, income statements, and their supplement information as applicable. Required breakdowns of the OFCs’ assets and

liabilities are similar to those for compiling MFS, while income statement should provide needed breakdown of income and expenses by type as set forth in the *2019 FSIs Guide*.

D. Balance Sheet Approach

12. **The main data source for the BSA matrix are SRFs with additional information from the external sector and government sector statistics.** Monetary statistics data is the most important input for a BSA as it captures data on financial intermediation by financial corporations in the economy including information on counterpart sectors. The SRFs enable developing from-whom-to-whom tables for stocks for inclusion in the BSA. Other data sources include IIP, which provides information on stocks of resident sectors with the rest of the world by instrument, and the government financial balance sheet (GFS) information presenting assets and liabilities of the general government or its subsectors by financial instrument and counterpart sector.

13. **A BSA matrix for Eswatini for end-2021 is provided in Table A.2, combining MFS and IIP data.** This version of from-whom-to-whom framework presents total assets and liabilities for all the sectors by counterpart sector and by currency, enabling to trace who finances whom, by how much and in what currency. Note that by disaggregating total assets and liabilities, other BSA matrices can be produced for each financial instrument and for different maturity where data are available. Eswatini's GFS data are not available for 2021.

14. **Further improvements to underlying data would increase the completeness of the matrix as well as its usefulness as an analytical tool.** Specifically, the following are the areas for improvement in the required data sets.

Monetary and Financial Statistics

15. **As MFS is the key source data, once the CBE starts reporting the OFCs data based on the SRF 4SR and improves the quality of data for ODCs, the completeness of the matrix as well as its usefulness will improve substantially.** These areas for improvement are discussed in sections on MFS and statistics for OFCs above.

International Investment Positions

16. **The CBE reports quarterly IIP data to STA for dissemination on an annual basis (the latest disseminated data refer to 2021Q1).** Data are compiled based on the *sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)* framework. In addition, the CBE compiles and disseminates balance of payments (BOP) and IIP data on their website on a quarterly basis with a lag of more than 4 months after the end of the reference period.

17. **Despite progress achieved in improving the external sector statistics (ESS), more efforts are needed to enhance the reliability of the disseminated BOP and IIP statistics.**

Especially, further work is required to (1) improve the estimation techniques of some essential components, such as trade credits, currency holdings, and deposits; (2) incorporate new source data, such as data from the Tourism Revenue Authority, in the compilation framework; and (3) enhance the quarterly Foreign Capital Survey (QFCS) to obtain more detailed data on services. Furthermore, additional data sources, such as financial statements of direct investment enterprises, are also urgently needed to fill data gaps on earnings and dividends. There is also a need to address some inconsistencies among the ESS datasets (BOP/ External Debt Statistics, and IIP) and between the reserve assets published by the CBE in ESS and in MFS. The frequency and timeliness of the ESS data sets should be also improved to better support policy analysis.

Government Finance Statistics

18. **Although there have been improvements in terms of implementation of the GFSM2014 classification standards through the STA CD support since 2018**, there are still several shortcomings and areas that need to be improved. Based on the findings of a recent TA mission on GFS and public sector debt (PSD) statistics, which took place in July 2022, more efforts are needed to improve the data quality and coverage as well as institutional capacity. The authorities report annual GFS data, which cover only budgetary central government (BCG), while data for 21 extra budgetary units (EBU), 22 local governments, and 17 public enterprises are not available. Therefore, there is a need to broaden the institutional coverage. In addition, there has been irregular reporting, particularly for the high frequency data (monthly/quarterly) and timeliness issues, while the PSD statistics produced by the authorities do not reflect the true debt situation. Greater efforts are also needed to (1) address large statistical discrepancies between above and below the line in the annual GFS data that were reported for dissemination in the IMF's GFS Database; and (2) report expenditure classification by functions of government (COFOG).

19. **Most of the remaining data gaps in the BSA matrix, after using MFS, IIP, and GFS data, can be filled with data on nonfinancial corporations (NFCs) and households (HHs).** However, collecting data on financial positions of NFCs and HHs can be challenging, as they can only be obtained from national accounts-related data sources. Data quality, coverage, periodicity, and timeliness are usually key issues, even if source data are available.

Table A1. Eswatini: Financial Soundness Indicators 2022Q2-2023Q1 (Percent)
(Based on the 2019 FSIs Guide)

	2022Q2	2022Q3	2022Q4	2023Q1
Core FSIs for Deposit Takers				
Regulatory capital to risk-weighted assets	23.6	22.9	18.4	18.6
Tier 1 capital to risk-weighted assets	20.7	20.0	16.2	16.3
Nonperforming loans net of provisions to capital	11.0	12.5	11.1	12.4
Common Equity Tier 1 capital to risk-weighted assets	20.7	20.0	16.2	16.3
Tier 1 capital to assets	12.5	12.1	12.6	13.5
Nonperforming loans to total gross loans	6.5	6.8	6.7	7.3
Provisions to nonperforming loans	55.4	51.7	54.6	53.2
Return on assets	3.0	2.9	3.0	3.0
Return on equity	15.6	14.5	15.3	13.6
Interest margin to gross income	54.3	55.0	55.8	58.9
Noninterest expenses to gross income	66.8	66.6	66.0	63.5
Liquid assets to total assets	29.4	24.4	28.8	26.4
Liquid assets to short-term liabilities	39.5	36.0	42.9	42.1
Net open position in foreign exchange to capital	100.7	149.3	117.1	98.9
Additional FSIs for Deposit Takers				
Large exposures to capital	56.2	55.8	46.9	45.3
Gross asset position in financial derivatives to capital*	...	...	...	...
Trading income to total income**	...	...	...	...
Personnel expenses to noninterest expenses	45.1	44.5	44.3	42.8
Customer deposits to total (non-interbank) loans	123.4	122.9	122.7	109.0
Foreign-currency-denominated liabilities to total liabilities	9.5	10.7	5.8	6.8
Real Estate Markets				
Residential real estate loans to total gross loans	18.75	19.56	19.30	18.84
Commercial real estate loans to total gross loans	9.41	9.67	8.92	9.26

*Reported in the old form based on the 2006 FSIs Guide through 2019Q4

** Reported in the old form based on the 2006 FSIs Guide through 2020Q2

Table A2. Eswatini: 2021 Balance Sheet Approach Matrix with MFS and IIP data
Percent of GDP

	Government		Central Bank		Other Depository Corporations		Other Financial Corporations		Nonfinancial Corporations		Households		External		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Government	Source: CB		Source: CB		Source: ODCs		Source: OFCs		Source: CB		Source: CB		Source: IIP			
<i>Total</i>			4.7	8.0	6.9	4.0	...	...	...	...	0.0	0.0	16.5	0.0	28.1	12.1
<i>In domestic currency</i>			4.7	8.0	6.9	4.0	...	...	...	...	0.0	0.0	0.0	0.0	11.6	12.0
<i>In foreign currency</i>			0.0	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	16.5	0.0	16.5	0.0
Central Bank	Source: CB				Source: CB		Source: CB		Source: CB		Source: CB		Source: CB			
<i>Total</i>	8.0	4.7			5.8	0.0	0.0	0.0	0.0	0.0	1.1	0.0	5.6	15.1	20.6	19.9
<i>In domestic currency</i>	8.0	4.7			5.8	0.0	0.0	0.0	0.0	0.0	1.1	0.1	0.0	0.0	15.0	4.8
<i>In foreign currency</i>	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	15.1	5.6	15.1
Oth. Dep.	Source: ODCs		Source: CB		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs		Source: ODCs			
<i>Total</i>	4.0	6.9	0.0	5.8	0.9	1.3	3.4	1.4	16.3	10.6	16.8	10.8	0.8	4.8	42.2	41.7
<i>In domestic currency</i>	4.0	6.9	0.0	5.8	0.9	1.3	3.4	1.4	16.3	10.6	16.8	10.8	0.0	0.0	41.5	36.9
<i>In foreign currency</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	4.8	0.8	4.8
Oth. Fin Corporat	Source: OFCs		Source: CB		Source: ODCs		Source: OFCs		Source: OFCs		Source: OFCs		Source: OFCs			
<i>Total</i>	...	...	0.0	0.0	1.4	3.4	...	...	...	...	...	...	...	...	1.4	3.4
<i>In domestic currency</i>	...	...	0.0	0.0	1.4	3.4	...	...	...	...	...	...	...	...	1.4	3.4
<i>In foreign currency</i>	...	...	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	0.0	0.0
Nonfinancial Corp	Source: CB		Source: CB		Source: ODCs		Source: OFCs				Source: IIP					
<i>Total</i>	...	...	0.0	0.0	10.6	16.3	...	...			28.2	20.2	38.8	36.5		
<i>In domestic currency</i>	...	...	0.0	0.0	10.6	16.3	...	...			0.0	0.0	10.6	16.3		
<i>In foreign currency</i>	0.0	0.0	0.0	0.0	0.0	0.0	...	...			28.2	20.2	28.2	20.2		
Households	Source: CB		Source: CB		Source: ODCs		Source: OFCs				Source: IIP					
<i>Total</i>	0.0	0.0	0.1	1.1	10.8	16.8	...	...			...	...	10.9	17.9		
<i>In domestic currency</i>	0.0	0.0	0.1	1.1	10.8	16.8	...	...			...	...	10.9	17.9		
<i>In foreign currency</i>	0.0	0.0	0.0	0.0	0.0	0.0	...	...			...	...	0.0	0.0		
External	Source: IIP		Source: CB		Source: ODCs		Source: OFCs		Source: IIP		Source: IIP					
<i>Total</i>	0.0	16.5	15.1	5.6	4.8	0.8	...	...	20.2	28.2	...	...	40.1	51.1		
<i>In domestic currency</i>	0.0	0.0	0.0	0.0	0.0	0.0	...	...	0.0	0.0	...	...	0.0	0.0		
<i>In foreign currency</i>	0.0	16.5	15.1	5.6	4.8	0.8	...	...	20.2	28.2	...	...	40.1	51.1		
Total	Source: IIP		Source: CB		Source: ODCs		Source: OFCs		Source: IIP		Source: IIP					
<i>Total</i>	12.1	28.1	19.9	20.6	41.2	42.7	3.4	1.4	36.5	38.8	17.9	10.8	51.1	40.1	CHECK	CHECK
<i>In domestic currency</i>	12.0	11.6	4.8	15.0	36.5	41.9	3.4	1.4	16.3	10.6	17.9	10.9	0.0	0.0	74.6	75.1
<i>In foreign currency</i>	0.0	16.5	15.1	5.6	4.8	0.8	0.0	0.0	20.2	28.2	0.0	0.0	51.0	40.1	71.0	71.0

ANNEX II. ASSESSMENT OF TA NEEDS IN FINANCIAL, EXTERNAL, AND GOVERNMENT SECTOR STATISTICS

1. **The authorities will benefit from further TA in macroeconomic statistics.** During the previous TA missions, the CBE officials expressed interest in TA to assist with improving the compilation of MFS and FSIs, including statistics for OFCs as a better statistical coverage of the financial sector is essential for financial sector surveillance and for closing the current data gaps.
2. **More broadly, the CBE officials, who are responsible for the statistics compilation, are encouraged to attend training courses on macroeconomic statistics offered by the IMF.** STA regularly delivers training courses on MFS, FSIs, ESS, and GFS for member countries. Curriculum details and the schedule are available on the webpage of the [IMF's Institute for Capacity Development](#).

A. Financial Soundness Indicators

3. **The CBE received TA on FSIs in 2021.** The mission assisted the CBE in preparing source data and compiling FSIs based on the new methodology as set forth in the *2019 FSIs Guide* and assessing the availability of source data to compile FSIs and MFS for OFCs. As noted earlier, there is also room for improvement in the current compilation of the FSIs for DTs.
4. **A TA mission could support the authorities' on-going efforts to improve the FSIs.** TA can assist with reviewing available source data (including data for building society) and incorporating them the compilation framework to improve the FSIs for DTs; and with reviewing the definition and calculation of some important underlying series to assess the consistency with the *2019 FSIs Guide* and using this information to update the FSIs metadata. In addition, TA could be useful to follow up on, and assist with, implementation of the recommendations made by the 2021 TA FSIs mission.²³

B. Monetary and Financial Statistics

5. **A TA MFS mission was conducted for Eswatini in 2018.** The mission reviewed available source data for OFCs, namely pension funds, insurance corporations, and investment funds, to assess their adequacy for the MFS compilation; assisted in setting up the report forms for OFCs based on the *MFSMCG*; and introduced the SRF 4SR for compiling MFS for OFCs. The mission also worked with the CBE staff on expanding the ODCs coverage by including the financial accounts of SACCOs. However, slow progress has been made in including SACCOs in the ODCs coverage and in compiling the SRF 4SR for OFCs.

²³ See TA Report on Financial Soundness Indicators Mission (Virtual) for the Kingdom of Eswatini (December 6–10, 2021).

6. **As with the FSIs, a TA could support the authorities' on-going efforts to improve the MFS compilation.** A TA in MFS could assist with (1) reviewing and improving source data for deposit-taking SACCOs, MMFs, and building societies; (2) mapping source data for these institutions to the SRF 2SR to expand the 2SR coverage; (3) improving data validation procedures to ensure good quality source data for compiling the 2SR; (4) addressing issues related to data frequency, reporting timeliness, and incomplete coverage; (5) identifying areas for further improvement of source data and compilation practices to be included in a medium-term workplan to improve Eswatini's financial sector statistics; and (6) presenting the expanded SRF 2SR compilation framework for the MFS compilers as a hands-on training on the MFS methodology and the compilation practices to improve staff capacity. TA could be also useful to follow up on, and assist with, implementation of the recommendations made by the 2021 TA FSIs mission and the 2018 TA MFS mission that are intended to improve the SRF 2SR for ODCs.

C. Statistics for Other Financial Corporations

7. **A TA could assist with the development of a framework for the compiling statistics for OFCs.** Especially, it could assist with (1) reviewing and improving source data for OFCs; (2) mapping available source data to the SRF 4SR to derive MFS for OFCs based on the MFSMCG; (3) mapping available source data to the new FSIs templates to derive FSIs for OFCs based on the 2019 FSIs Guide; (4) identifying areas for further improvement of source data; and (5) presenting the MFS and FSIs compilation framework for the MFS and FSIs compilers as a hands-on training on the MFS and FSIs methodologies and the compilation practices to improve staff capacity.

D. Balance Sheet Approach

Monetary and Financial Statistics

8. **The focus should be on improving the current compilation of the MFS for ODCs and compiling the MFS for OFCs.** The identified areas for improvement and the steps to compile the MFS for OFCs, which could be the focus of further TA for Eswatini, are discussed in detail on the sections on MFS and statistics for OFCs above.

International Investment Positions

9. **The quality of BOP and IIP can be enhanced considerably by addressing the issues related to source data, compilation techniques, and consistencies among relevant data sets.** In this regard, the mission is of the view that TA could be useful to assist with improving source data and incorporating them in the ESS compilation framework, reviewing and updating the estimation techniques, and addressing data inconsistencies. Future TA could

also assist with addressing any pending issues raised by the February 2020 ESS TA mission.²⁴

Government Finance Statistics

10. **Addressing the identified issues discussed in section on GFS above will significantly improve the quality and adequacy of GFS for the construction of BSA and to better support financial sector surveillance.** In this regard, the mission is of the view that TA could be useful to assist with developing or improving source data for units outside BCG and incorporating them in the GFS compilation, improving PSD statistics, and addressing other outstanding issues, including those that were identified by the 2022 TA mission.²⁵

²⁴ See Report on the External Sector Statistics Mission for the Kingdom of Eswatini (February 10–21, 2020).

²⁵ See Report on Government Finance Statistics and Public Sector Debt Statistics TA Mission for the Kingdom of Eswatini (July 6–12, 2022).