



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

KINGDOM OF ESWATINI

Financial Sector Stability Review

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The IMF conducted a diagnostic review of the financial system of the Kingdom of Eswatini and proposed a Technical Assistance Roadmap to support the authorities' detection of risks and vulnerabilities and to enhance capacity in financial sector oversight. The financial stability module focused on areas agreed with the country authorities: financial stability and systemic risk monitoring, macroprudential frameworks and tools; crisis management and financial safety net; and supervision and regulation of banks, nonbank deposit-taking institutions, insurance, and retirement funds. The financial sector statistics module focused on key gaps in monetary and financial statistics and financial soundness indicators that hamper financial stability analysis.

Keywords: Kingdom of Eswatini, Eswatini, CBE, FSRA, FSSR, financial stability, systemic risk, macroprudential frameworks, stress testing, crisis management, financial safety net, banking supervision and regulation, nonbanking supervision and regulation, deposit-taking institutions, insurance, and retirement funds.

Background

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 diagnostic focused on five areas: (i) financial stability and systemic risk monitoring, and macroprudential frameworks and tools; (ii) financial safety net and crisis management; (iii) supervision and regulation of banks and nonbank deposit-taking institutions; (iv) supervision and regulation of insurance and retirement funds; and (v) financial sector statistics (monetary and financial statistics and financial soundness indicators). The team discussed with financial stability stakeholders recent developments in the financial sector, effectiveness of the financial supervision and regulation, implementation of previous MCM TA recommendations, progress with legal reforms, and capacity challenges and the authorities' priorities.

Summary of Findings

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—the CBE and the Financial Services Regulatory Authority (FSRA).

Summary of Recommendations

This diagnostic supports a program of follow-up technical assistance (TA). In consultation with financial stability stakeholders, the team developed and proposed a sequenced TA roadmap to assist the authorities bridge identified capacity and data gaps in pursuing the recommended reforms, including:

- *Immediate priority TA that can help the authorities implement overarching 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 capital market intermediaries and credit institutions, and (iii) enhancing NBFIs 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:*
 - (i) **Financial stability, systemic risk, macroprudential frameworks and tools, including stress testing:** Undertaking a stocktaking of data, especially in NBFIs; developing a Risk Dashboard; overhauling the stress-testing framework; and developing designation criteria for domestic systemically important financial institutions, including for 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-South African Reserve Bank MoU with provisions for recovery and resolution planning and crisis management.
 - (iii) **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 NBFIs.
 - (iv) **Regulation and supervision of insurance and retirement funds (IRF):** 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.