GOVERNOR'S ANNUAL MONETARY POLICY STATEMENT ADDRESS

"Price and Financial Sector Stability for Sustained Economic Growth and Development"

12 APRIL 2018

Happy Valley Hotel

Programme Director

Honourable Minister for Finance

Members of both houses of Parliament present here

Board of Directors of the Central Bank of Swaziland

Members of the Monetary Policy Consultative Committee

Senior Government Officials

CEOs of Commercial Banks & Non-Bank Financial Institutions

CEOs of Private Sector and Public Enterprises

Representatives of International Organisations

Representatives of Non-Governmental Organisations

Representatives of Academic Institutions

Central Bank Management & Staff

Media Representatives

Distinguished Guests

Ladies and Gentlemen

INTRODUCTION

1. It is an honour for me to welcome you to yet another important gathering whose sole purpose as we all know is to present to you the Annual Monetary Policy Statement for 2018. Such a forum serves to inform stakeholders and the public in general about monetary policy developments and the economic environment during the course of the year 2017/2018 and further provide an outlook for the year ahead.

2. Programme director, distinguished ladies and gentlemen, before I make this presentation, let me take this opportunity and express my sincere

gratitude to the men and women who dare not tire to apply their minds each year to compile this statement which I am presenting to you this morning. Present among us is a team of experts from the Central Bank that will respond to some of the pertinent questions that may arise from this gathering.

3. I also wish to take this opportunity and recognise the Honourable Minister for Finance and all the stakeholders who continue to work hand-in-hand with the Central Bank as it endeavours to achieve its monetary policy objective of price and financial sector stability.

4. The Bank remains fully committed Honourable Minister to serving this country in the best possible way it can, and it strives to find various means to eradicate discrepancies in our economy, within the purview of monetary policy implementation.

5. Honourable Minister, Ladies and Gentlemen, this Monetary Policy Statement is presented against a background of continued uncertainty in the global and regional economic environment, arising from threats of inward looking policies in advanced economies, Brexit, geopolitical tensions and political developments in our anchor economy, the Republic of South Africa.

6. The price and financial stability objective continue to guide monetary policy formulation and implementation in Swaziland. As such, the Bank continued to pursue a tight monetary policy stance to curb inflation and increasing unsecured loans at the beginning of the year 2017.

7. My presentation this morning provides a review of key developments in international, regional and domestic economies. Further, the policy statement will refer to recent monetary policy decisions and pronounce anticipated policy direction in the coming year.

Programme director, distinguished ladies and gentlemen, I will now highlight developments in the Global Economy.

8. The IMF estimates global growth for 2017 to be at 3.7 per cent compared to a revised 3.2 per cent growth in 2016. The upswing was mainly driven by stronger manufacturing activity and robust global trade, underpinned by higher corporate investment.

9. Global growth is projected to pick up to 3.9 per cent for both 2018 and 2019. Downside risks to global growth includes a tightening monetary policy stance as the U.S. responds to inflationary pressures, Brexit, inward looking trade policies (increased regulatory/trade barriers) and geopolitical tensions, amongst other factors.

10. Advanced economies continued to struggle with sluggish growth in the context of the aforementioned factors. Growth in advanced economies is estimated at 2.3 per cent for 2017 from 1.7 per cent in 2016 and, is projected to pick up to 2.3 per cent in 2018 and before falling to 2.2 per cent in 2019.

11. Growth in emerging market and developing economies (EMDEs) improved from 4.1 per cent in 2016 to 4.7 per cent in 2017, and is projected to reach 4.9 per cent and 5 per cent in 2018 and 2019, respectively.

Programme director, allow me to turn to inflation developments in the global economy.

12. Headline inflation recovered in advanced economies in recent months mainly due to price increases for crude oil whilst wage and core-inflation remain weak.

13. In advanced economies, inflation in 2017 was around 1.7 per cent compared to 0.8 per cent in 2016, and is expected to pick up to 1.9 per cent and 2.1 per cent in 2018 and 2019, respectively.

14. Inflation developments in emerging market and developing economies have been broadly divergent, reflecting differing exchange rate

movements and country-specific factors. EMDEs inflation averaged 4.1 per cent in 2017 compared to 4.3 per cent in 2016.

15. Crude oil prices are forecasted to remain high in 2018 following agreements between OPEC and non-OPEC producers to continue curtailing production.

Programme director, I now turn to monetary policy developments in the global economy.

16. Generally, global monetary policies remained accommodative in 2017 and the first three months of 2018.

17. The U.S. increased the Fed fund rate three times in 2017, an increase of 75 basis points over the year and once in 2018 (25 basis points) to between 1.5 - 1.75 per cent whilst the Bank of England increased its Benchmark Bank rate once by 25 basis points to 0.50 per cent in November 2017 to fight off inflationary pressures.

18. In spite of the U.S.'s tightening stance, other advanced economies maintained unconventional monetary policies with the European Central Bank maintaining 0 per cent and Japan at -0.1 per cent over the year 2017 and the opening three months of 2018.

19. The tightening cycle by the U.S. has put pressure on other economies and is likely to affect the dovish monetary policy stance adopted by other economies in a bid to prevent capital outflows.

20. The Federal Reserve has indicated that its tightening cycle could be implemented at a faster pace during the year 2018.

Programme director, allow me to now look at economic developments in the neighbouring South Africa which have an impact on our economy.

21. The South African economy grew by 1.3 per cent in 2017 up from 0.3 per cent in 2016.

22. Seasonally adjusted data shows a higher growth rate of 3.1 per cent in the fourth quarter of 2017 up from a 2.3 per cent growth in the third quarter.

23. The strengthening economic activity was mainly driven by the agriculture industry which grew by 17.7 per cent compared to 2016. Other main contributors to growth were mining and finance which grew by 4.6 per cent and 1.9 per cent, respectively.

24. The South African Reserve Bank (SARB) forecasts economic growth at 1.7 per cent for 2018 and 1.5 per cent for 2019.

25. Consumer price index (CPI) averaged 5.3 per cent in 2017 compared to 6.3 per cent in 2016, falling within the target range of 3-6 per cent. The moderation was mainly driven by a decrease in food prices as the drought effects continued dissipating.

26. Consumer inflation in South Africa declined to 4.0 per cent year-on-year in February 2018, following a 4.4 per cent gain in January 2018. Accounting for this decline was a slower increase in prices for food and transport.

27. In its June 2017 meeting, the South African Reserve Bank lowered the repo rate by 25 basis points to 6.75 per cent, in part, following the continuous moderation in inflation and its outlook.

28. In March 2018, the SARB announced that inflation is expected to average 4.9 per cent in 2018 and accelerate to an average of 5.2 per cent in 2019. Core inflation is forecast at 4.6 per cent and 4.9 per cent for 2018 and 2019, respectively.

29. Furthermore, a meeting convened on the 28th of March 2018 saw the SARB reduce its repo rate by 25 basis point to 6.5 per cent.

Programme director, let me now shift focus to developments in the domestic economy. I will start by outlining the monetary policy of the country.

30. During the year 2017, the Central Bank pursued a restrictive and steady monetary policy stance, maintaining the discount at 7.25 per cent throughout the year. This was in order to restore price stability which was threatened by higher food prices at the beginning of the year and later on increasing unsecured personal loans.

31. In March 2018, the Bank lowered the discount rate by 25 basis points to 6.75 per cent as food prices continued to moderate and the strengthening Lilangeni exchange rate benefiting from positive sentiments in the South African economy.

32. Over the reporting period, the Bank maintained the bank liquidity requirement at 25 per cent and the reserve requirement at 6 per cent.

33. In the short to medium-term, the outlook for monetary policy remains unclear but likely to be more or less accommodative as the slowdown in inflation persists. The favourable inflation will largely be sustained by decelerating food inflation as well as the recent Lilangeni strengthening.

34. However, risks may be posed by increases in; administered prices of some utilities, value added tax (VAT) and oil prices.

Programme director, the monetary policy actions I have just outlined are expected to filter into the economy, hence I now present their transmission to the wider economy.

35. Preliminary estimates for GDP reflect that overall economic activity expanded by 1.9 per cent in 2017 from 1.4 per cent in 2016, mainly supported by an improvement in the primary and secondary sectors.

36. These sectors mainly benefited from the improved weather conditions particularly the above normal rains received in the last months of 2016 and early months of 2017 supported by a recovery in agricultural production, agro-processing, water supply and hydro-power generation.

37. The primary sector is estimated to have increased by 0.7 per cent in 2017 up from a decline of 5.6 per cent in 2016.

38. The secondary sector is estimated to have expanded by 0.7 per cent in 2017 compared to 0.5 per cent recorded in 2016. Growth in the secondary sector was largely driven by manufacturing particularly agro-processing, electricity and water supply.

39. The tertiary sector is estimated to have grown by 2.7 per cent in 2017 compared to 3.2 per cent recorded in 2016. Positive growth rates were mainly observed in the output for 'general government services', 'communication' and 'financial intermediation' and 'wholesale and retail trade'.

40. Economic activity is projected to decelerate to 1.3 per cent in 2018 before picking up to 2.0 and 2.7 per cent in 2019 and 2020, respectively.

41. The slowdown in 2018 is mainly linked to the government cashflow challenges that have led to an accumulation of arrears from the previous two years. This will weigh heavily on the performance of the 'construction', 'financial' and 'wholesale and retail' sub-sectors.

Programme director, I now turn to price developments in the domestic economy.

42. The annual consumer inflation averaged 6.2 per cent in 2017 compared to an average of 7.8 per cent in 2016.

43. Inflationary pressures were generally on the downside throughout the year, with the consumer price inflation reaching a low of 4.7 per cent in December 2017 from a peak of 8.2 per cent in January 2017.

44. A significant slowdown was observed in the consumer price index (CPI) for goods mainly non-durable goods, which are mainly dominated by food price developments.

45. Food inflation decelerated from a record high of 19.0 per cent in December 2016 to a record low of 2.6 per cent in December 2017 and

averaged 8.1 per cent in 2017 compared to 14.4 per cent the previous year.

46. Core inflation which is CPI excluding food, auto-fuel and energy averaged 5.5 per cent in 2017 compared to 5.0 per cent in 2016.

47. Latest figures indicate that annual consumer inflation declined to 4.0 per cent in February 2018 from 4.6 per cent in January 2018. The slowdown mainly benefited from a decrease in food, transport, and Recreation and culture.

Programme director, I will now talk about monetary sector developments in the domestic economy

48. Annual growth in credit extended to the private sector gained further momentum from 8.2 per cent in previous year to 11.0 per cent at the end of February 2018. The growth in credit extended to the private sector was registered in all its components namely; Business, Households and Other (unclassified) sectors.

49. Annual credit to the business sector accelerated by a double digit of 17.2 per cent in February 2018 compared to 12.0 per cent recorded the previous year. The rise in credit to businesses was mainly discernible in the Mining & Quarrying, Distribution & Tourism and Transport & Communications sectors.

50. Year-on-year credit extended to the household sector rose by 5.8 per cent in February 2018, slightly lower than the 7.7 per cent growth recorded the previous year.

51. Within the household sector, other personal (unsecured) and housing loans recorded increases while motor vehicles loans fell.

52. Other personal loans grew by 15.5 per cent in February 2018 compared to 20.5 per cent recorded the previous year. Credit for housing purposes on the other hand increased by 6.5 per cent in February 2018 lower than the 7.4 per cent growth registered the previous year. On the other hand, credit extended for motor vehicle finance contracted by 6.7 per in

February 2018, slightly higher than the decline of 3.4 per cent obtained the previous year.

53. In the short to medium term, the outlook for private sector credit is likely to remain positive underpinned by the continued recovery in crop production as well as lower lending rates.

54. The country's gross official reserves declined by 6.5 per cent over the period ended February 2018 to reach E6.6 billion. This decline, however, indicated a slight improvement from the 9.9 per cent fall recorded the previous year.

55. This improvement was attributed to higher SACU receipts during the 2017/18 fiscal year at E7.1 billion compared to E5.3 billion during the 2016/17 fiscal year.

56. Accordingly, the reserves were enough to cover 3.3 months of imports, slightly lower than the 3.4 months recorded the previous year.

57. As at 29 March 2018, gross official reserves stood at E6.6 billion, sufficient to cover 3.3 months of imports of goods and services.

58. The short to medium-term prospects for the country's reserves are uncertain as the Government continues to face cash flow challenges and SACU receipts for the 2018/2019 fiscal year are projected to decline.

59. Year-on-year broad money supply (M2) grew by 16.2 per cent in February 2018, slightly lower than the 16.3 per cent growth realised the previous year.

60. The observed growth impetus was largely provided by the expansion in private sector credit extension.

61. The exchange rate of the Lilangeni/Rand against major currencies strengthened in 2017, particular against the US dollar.

62. The local unit strengthened to reach the E12:00 mark against the US dollar, which was last recorded in the third quarter of 2015 despite the

negative sentiments from the credit ratings' downgrades by Standard and Poor's, and Fitch.

63. The strengthening of the local unit against the US dollar was more pronounced in the fourth quarter of 2017, in part, on the back of recovered business confidence in the Republic of South Africa after the ANC elective conference.

64. At the end of the first quarter of 2018, the Lilangeni was stronger at E11.84 to the US dollar compared to E13.20 recorded at the end of December 2017.

Programme director, ladies and gentlemen, I will now turn to speak on developments in the fiscal sector.

65. The national budget delivered by the Honourable Minister for Finance on 1st March 2018 was presented under serious fiscal challenges faced by the country; hence, it is aimed at anchoring fiscal prudence and providing a stepping stone for future growth and economic development.

66. The budget deficit for 2018/19 is projected to stand at E4.3 billion, an equivalent of 6.7 per cent of GDP.

67. This indicates an improvement from the deficit of 8.3 per cent of GDP for 2017/18, which is a result of fiscal consolidation measures and reform strategies to be implemented.

68. The actual outturn for 2016/17 shows a deficit of E4.2 billion, an equivalent of 7.7 per cent of GDP.

69. Total revenue and grants are projected to increase by 2.3 per cent to reach E17.3 billion. The increase is attributed to policies to be implemented in 2018/19 which include; increasing VAT from 14 per cent to 15 per cent, collection of licence fees from mobile companies, additional tax on alcohol & tobacco products, review of user fees and fuel tax and introduction of import levy on non-SACU used vehicles.

70. The policy measures to be implemented coupled with continued efficiency of SRA tax collection are expected to result in an approximately 17 per cent increase in domestic revenue.

71. SACU, the major source of Government revenue, is set to decline by 18.3 per cent from the E7.1 billion recorded in 2017/18 to E5.8 billion in 2018/19. This source of revenue accounts for 34 per cent of total revenue and grants compared to 43 per cent the previous fiscal year.

72. Total expenditure is estimated to decline from E21.7 billion in 2017/18 to reach E21.6 billion in 2018/19 as a result of undertaking expenditure rationing to prioritise only the most pressing concerns.

73. The budget deficit without adequate financing remains a major concern as it exerts pressure on the domestic economy. It tends to lead to cashflow challenges, which, in turn, result in accumulation of arrears.

74. Preliminary figures for the period ending 31 March 2018 indicate that total public debt stood at E12.8 billion, an equivalent of 20.6 per cent of GDP reflecting a 13.3 per cent increase from E11.3 billion recorded in March 2017. The surge was mainly driven by domestic debt issuances during the period.

75. Accordingly, domestic debt increased from E6.1 billion in March 2017 to reach E7.7 billion in March 2018 corresponding to 11.9 per cent of GDP. External debt remained unchanged at E5.2 billion corresponding to 8.3 per cent of GDP during the review period.

76. During the 2017/18 fiscal year, the Government of Swaziland in conjunction with the Central Bank of Swaziland (as Agent to Government) listed in the Swaziland Stock Exchange (SSX) a E2 billion first ever Infrastructure Bond Programme in mid-July 2017.

77. The Programme is expected to run between 3 and 5 years wherein Government will be tapping into the market at regular intervals when there is a need to finance the projects stipulated in the accompanying Prospectus.

78. The Programme will run concurrently with the normal (Plain Vanilla) Issuance Programme (where E2 billion was also listed in the SSX) as both issuances play different roles towards the development of the domestic financial market and the economy at large.

79. The Programmes had a total of E834.1 million raised as at 31 March 2018 indicating an allotment rate of 69.5 per cent.

80. Treasury Bills Issuances continued in 2017/18 and were mainly used to finance Government cash shortfalls.

Programme director, distinguished ladies and gentlemen, allow me to walk you through the developments in the country's Balance of Payments

81. Preliminary figures indicate that the current account recorded a surplus of E8.64 billion in 2017, an 8.6 per cent decline from E9.45 billion registered in 2016.

82. The slight plunge in the current account balance was attributed to a widened deficit in the services account coupled with a narrower positive trade balance.

83. Although the secondary income account recorded an increase in 2017 compared to 2016, it failed to counter the effects of the negative movements of the other accounts on the current account balance.

84. Export earnings in 2017 amounted to E24.07 billion compared to E24.38 billion in 2016, indicating a marginal decline of 1.25 per cent.

85. Major exports for 2017 were products of miscellaneous edibles, sugar and sugar confectionary as well as textile and textile articles, contributing 50.8 per cent, 19.7 per cent and 12.5 per cent, respectively, to the overall export basket for 2017.

86. Import receipts grew in 2017, totalling E19.19 billion up by 3.7 per cent from E18.51 billion in 2016.

87. On a positive note, the Lilangeni/Rand strengthened against major currencies, especially the US Dollar, reaching the E12.00 mark which was last recorded in 2015.

88. The strengthening of the local unit was more pronounced in the 4th quarter of 2017 due to recovered business confidence after the outcome of the ANC electoral conference in December 2017.

89. This ladies and gentlemen, happened despite negative sentiments from unfavourable credit ratings for South Africa by Standard and Poor's, Moody's and Fitch.

Programme director, distinguished ladies and gentlemen, allow me to walk you through the inflation outlook and monetary policy stance

90. Monetary policy continues to remain uncertain in the short to medium term but is most likely to be slightly accommodative.

91. During the year 2017, inflation as one of the key variables in determining monetary policy, demonstrated a decelerating trend, amidst an unstable regional political atmosphere.

92. An upward biased outlook on inflation is however expected in the short to medium term due to an expectation of higher oil prices, increase in Value Added Tax and administered prices. In light of this, inflation is expected to average 5.41 per cent in 2018. Over the medium term, inflation is expected to increase to 6.08 per cent in 2019 and 6.38 per cent in 2020.

93. Therefore, monetary policy will continue to focus on the need to anchor inflationary expectations to continue with its moderation trajectory by monetary policy instruments, which the Bank has always used, and be mindful of the need to ensure that domestic economic activity is not severely constrained while maintaining financial stability.

94. Monetary policy formulation and implementation will also continue to support Government's broader economic objectives, and support in the endeavour to meet His Majesty's directive, which is about restoration

of fiscal balance and achieving more with less, whilst addressing socio-economic problems.

95. Furthermore, the Bank will continue striving to keep reserves above the conventional 3 months of imports of goods and services, as well as ensuring that the peg to the South African Rand is maintained.

Programme director; I will now turn to developments in the regulatory policies fostering financial stability. Let me start by the Financial Sector Development Implementation Plan (FSDIP)

96. During the 2017/2018 fiscal year, Government adopted the Financial Sector Development Implementation Plan (FSDIP) - a comprehensive and progressive vision for the entire financial sector in the country that will underpin economic growth and poverty reduction.

97. FSDIP is a three-year national strategy to guide the development of the financial sector by touching on all parts of the financial system.

98. In support of the country's vision 2022, the Bank's vision is to have a stable, diversified, modern and competitive financial system that provides quality affordable and accessible services to all to support economic growth.

99. The implementation of the strategy is ongoing with all stakeholders in the national financial system participating. The Central Bank is actively coordinating the implementation of this important national strategy.

100. Programme director, distinguished ladies and gentlemen, I will now turn to Bank Supervision.

101. Our financial sector continues to be characterised by a strong and resilient banking system resulting from strong and prudent risk management practices by banks together with sound regulatory and supervisory standards.

102. Against this backdrop, profitability in the banking sector showed a slight deterioration in 2017. The Banking sector posted a E419.8 million

profit as at 31 December 2017 compared to E586.7 million recorded in the previous year.

103. Total assets increased from E18.3 billion in December 2016 to reach E19.5 billion as at 31 December 2017, which indicates a 7 per cent increase.

104. On a positive note, the Banking sector continues to be adequately capitalised as all four banks posted capital ratios well above the required minimum regulatory capital ratio.

105. In an effort to enhance the regulatory and supervisory framework, the Bank has issued Corporate Governance Guidelines for banks, Enforcement Procedure Guidelines, Inquiry Guidelines, Guideline on the implementation of IFRS 9 (Financial Instruments) for the banking sector and set out a Central Bank Enforcement framework. A Guideline on Banking Practice is however on its finalisation stage where all comments from banks are being considered.

106. It is worth noting that Basel II implementation has been effected with the go live date scheduled for the quarter ending June 2018. I would therefore like to applaud financial institutions for their continued support during this very important exercise.

107. Programme director, I will now speak on the national payment systems.

108. The Central Bank of Swaziland (CBS) continues to promote and regulate payment and settlement systems to support financial stability in the domestic financial sector.

109. Payment systems by their very nature and the central role they play in the economy also involve significant exposures and risks for participants and could also serve as a channel for transmitting shocks across the financial system.

110. For this reason, the CBS is entrusted with a mandate to support financial stability through exercising payment systems oversight.

111. On that note, the CBS is taking care not to hamper competition and innovation that comes from the ongoing domestic and international financial technology developments; however, it continues to monitor developments associated with financial technology to safeguard integrity of the financial system.

112. The CBS and licensed banking institutions continue to participate in the SADC Integrated Regional Electronic Settlement System (SIRESS) and the activity continues to grow in terms of volume and value.

113. In order to guide and to facilitate harmonisation of the supporting legislation in the member countries, the SADC Committee of Central Bank Governors have adopted the SADC Payment System Model Law and the SADC Mobile Money Guidelines.

114. The CBS has taken cognisance of this development and is receiving technical assistance to review the National Oversight Policy Framework, 2008, the National Clearing and Settlement Systems Act, 2011 and the Practice Note for Mobile Money Transfer Operators 2015.

Programme director, ladies and gentlemen, I will now move forward to speak on the important subject of prevention of Money Laundering.

115. You may recall, ladies and gentlemen, that the Money Laundering and Terrorist Financing (Prevention) Act, 2011 was amended in 2016 to introduce, amongst other things, a risk based approach to dealing with money laundering and terrorist financing matters in compliance with international standards.

116. The CBS received technical assistance from the IMF to develop a risk based supervisory approach to money laundering. We are hopeful that the Central Bank will use these tools to better understand the financial risks of the banking sector due to money laundering and terrorist financing, thus positively contributing to the ongoing National Risk Assessment exercise.

Programme director, ladies and gentlemen, I will now move forward to speak on Issue and Redeeming of Currency.

117. During the period ended 28 February 2018 notes issued amounted to E6 billion compared to E5.6 billion issued in the same period the previous year, whilst coins issued over the period to February 2018 amounted to E25.7 million, indicating a decrease from the prior year's E37.7 million.

118. I am pleased to announce that the Bank began releasing the new E100 and E200 with enhanced security features into circulation on the 31st March 2018 under Legal Notices No.10 and No.11 of 2018.

119. In commemorating the country's 50th Independence Anniversary and His Majesty the King's 50th Birthday, the Bank has minted a E5 circulation commemorative coin, which was partly designed by Mlandvo Motsa, a 14-year old from Mhlatane High School, through a school competition run by the Bank. The coins will be released into circulation in April 2018.

120. In addition, the Bank hosted a campaign from November 2017 to February 2018 where the general public was encouraged to circulate coins and use them for buying instead of hoarding.

121. Program Director, I am pleased to announce that the Bank has registered a Banknote Educational App with apple and google store which is now ready available free of charge. This App will specialize on educating the public about the country's banknotes in detail. To download the app, members of the public can search for "Lilangeni" on their google store or apple store and get the App.

122. Swaziland has, over the recent past, experienced an upward trajectory in the prevalence of brazen and repeated bombings of Automatic Teller Machines (ATMs) by use of explosives and other forms of less sophisticated criminal attacks.

123. I am glad to report that as a response to this issue, the Bank has among other things, introduce guidelines that will permit players in the cash management cycle to deployed Currency Protection Devices (CPDs) to

deter criminal attacks on ATMs, static safes and Cross Pavement Carriers (CPCs) by removing the incentive and or taking away the prize. The Bank will soon be commencing public awareness campaigns to educate members of the public on how to deal with dye stain notes.

Programme director, ladies and gentlemen, I will now turn to financial sector stability

124. In the year 2017, the Financial Stability Unit (FSU) successfully hosted its second Annual Financial Stability Conference whose main focus was the official launch of the Central Bank of Swaziland's first ever issue of the Financial Stability Report (FSR).

125. The FSR captures the main risks and vulnerabilities of the financial system and open a channel of communication between stakeholders on issues pertaining to financial stability and this publication ladies and gentlemen, shall be published annually, and is intended to enhance the understanding of financial system vulnerabilities among policymakers, financial market participants and the general public.

126. The FSU will continue to monitor system-wide risks to financial stability and strengthen tools for assessing systemic risk.

CONCLUSION

127. Allow me to conclude Programme Director by highlighting that the year 2017 saw a moderation in inflation at a faster pace and economic growth prospects improving.

128. However, government cash flow challenges pose a threat to the short to medium term growth prospects further augmented by the uncertain global and regional economic environment.

129. Further, the continuous public arrears continue to be a cause for concern for monetary policy.

130. The financing of the fiscal deficit and public arrears pose an opportunity to develop a vibrant financial market but also poses a threat to destabilise the financial market.

131. The Bank will continue to assess global, regional and domestic developments, and use all the instruments at its disposal in pursuit of its price and financial stability objective in order to ensure an environment conducive for sustainable economic growth.

132. May you have a prosperous 2018/19.