GOVERNOR'S ANNUAL MONETARY POLICY STATEMENT ADDRESS

12 JUNE 2015

Programme Director
Honourable Minister of Finance
Members of both houses of Parliament all here present
Senior Government Officials.
CEOs of Commercial Bank & Non-Bank Financial Institutions
CEOs of Private Sector and Public Enterprises
Representatives of International organisations
Representatives of Non-Governmental Organisations
Representatives of Academic Institutions
Distinguished guests
Ladies and Gentlemen,

Theme: 'Financial Sector Stability for Sustained Investment Confidence'.

1. ***INTRODUCTION:***

   It is that time of the year where the Central Bank of Swaziland briefs its key stakeholders on how it sees the monetary developments in the country. It therefore gives me great pleasure and I feel greatly honoured to deliver this policy statement.

2. Ladies and gentlemen, allow to me start off by recognising the team of professionals that have pooled their expertise together to compile the statement which I am presenting to you this morning. I would also like to mention that this team, which is available in this room, is ready to respond

to some of the questions that may arise from this distinguished gathering. I also recognise with much appreciation all the organisers on this event.

3. The Central Bank of Swaziland continues to be innovative in executing its core mandate of promoting sound, efficient and stable financial system to drive the economy towards sustainable economic development. In its administration of monetary policy, the Bank strives to ensure that the ordinary Swazi is afforded access to financial services.

4. Further, as the Bank conducts its business on a day to day basis we strive to align our policies with other national initiatives. Noting that all efforts in the country are targeted at attracting and retaining investment, both domestic and foreign, we have settled for the theme *'Financial Sector Stability for Sustained Investment Confidence'*.

5. My presentation this morning will briefly cover 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. I will also talk about developments in the key national institutions

and structures within and outside the Bank that supported the Bank in executing its functions.

INTERNATIONAL AND REGIONAL DEVELOPMENTS

6. During 2014 global growth remained moderate, with uneven prospects across developed countries and regions. Global growth in 2014 was lower than initially projected, continuing a pattern of disappointing outturns over the past several years. Growth picked up only marginally in 2014, rising to 2.6 percent, from 2.5 percent in 2013. According to the IMF World Economic Outlook (WEO) for April 2015 global growth is projected to be 3.5 percent in 2015.
7. The outlook for advanced economies is improving, while growth in emerging markets and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.
8. Markets will continue to be influenced by speculation over how soon US interest rate normalization will start and how quickly it will progress. Commodity prices continued to underperform, with commodity exporters struggling.

9. The IMF downwardly revised growth forecast for South Africa from 2.3 percent to 2.1 percent in 2015. The domestic growth outlook remains weak, amid continued electricity constraints as well as low and declining business activity and consumer confidence.
10. For 2014 as a whole, SA GDP growth slowed to 1.5 percent from 2.2 percent in 2013. In 2014 GDP growth was subdued mainly in the first half of the year with economic activity undermined by numerous labour unrests and the slow recovery in developed countries especially in the Eurozone.
11. In an effort to counter inflationary pressures, the South African Reserve Bank (SARB) increased the repo by 25 basis points to 5.75 percent in July 2014. The repo rate was maintained at this level until the end of 2014.
12. South African annual inflation rate averaged 6.1 percent in 2014, slightly above the inflation target range of 3 to 6 percent. This figure is higher than the average inflation of 5.8 percent recorded in 2013.

<u>DOMESTIC ECONOMIC DEVELOPMENTS</u>

REAL SECTOR DEVELOPMENTS

13. The domestic economy continued to record positive growth in 2014. Preliminary forecasts for real GDP growth indicate that the Swazi economy grew by 2.5 percent[1] in 2014 which is lower than the revised estimate of 3.0 percent in 2013.
14. The slowdown in real output growth resulted from a loss of momentum in the secondary sector, mainly 'manufacturing' and 'electricity and water supply' subsectors. Manufacturing which accounts for about a third of GDP is projected to have grown by only 1.3 percent in 2014 compared to 1.9 percent the previous year.
15. The effect of falling global demand characterized by falling prices was evident in the mining sector where iron ore production was halted in the last quarter of 2014 following a plunge in international iron ore prices. This affected both mining and services sectors, notably transport, which was one of the key beneficiary sectors after the re-opening of the Ngwenya iron-ore mine.
16. During 2014 positive prospects were noted in 'agriculture and forestry', 'wholesale and retail', 'tourism' and 'central government services' subsectors. Agriculture

[1] This is based on projections done in August 2014 by Macro-forecasting team (CBS-real sector and MEPD-Macro Division). 2011 and 2012 GDP numbers are CSO's provisional estimates whilst 2013 and 2014 GDP numbers are preliminary forecasts by the macro-forecasting team

sector continued to benefit from the implementation of the Lower Usutu Smallholder Irrigation Project (LUSIP) which resulted in increased area under irrigation which predominantly benefits sugarcane production.

17. The forestry sub-sector maintained its recovery which supported increased processing of timber related products. Relatively lower inflation and above-inflation wage settlements for both public and private sector raised real disposable incomes which supported growth for the wholesale and retail trade subsector.
18. The real output for government services sub-sector, which directly constitutes 15 percent of GDP, is projected to have grown by 2.5 percent in 2014 compared to 4.3 in 2013. The growth in 2014 is in line with the steady increase in government payroll numbers.
19. Increased allocation on government capital programme also facilitated growth in real output for the construction sector which heavily relies on government capital projects.
20. Further positive gains came from the weaker Rand/Lilangeni exchange rate against major trading currencies in 2014 which cushioned sales returns (that fetched lower international prices) from outside the SACU region. The weaker exchange rate also benefited the tourism sector which is estimated to have grown

marginally by 2.1 percent in 2014 from a 3.8 percent decline the previous year.

PRICES

21. I will now turn to speak on domestic price developments. Swaziland's consumer inflation averaged 5.7 percent in 2014, which was 0.1 percent higher than 5.6 percent observed in 2013. Inflationary pressures mainly came from administered prices notably in the transport category.
22. Fuel prices cumulatively increased by 110 cents per litre in 2014 compared to a 25 cent decline in 2013. In line with the increases in fuel prices, public transport fares, which had not been increased in more than 5 years, were hiked by 25 percent in July 2014.
23. Food inflation also averaged 6.3 percent in 2014 higher than the average of 5.7 percent recorded in the previous year.
24. These inflationary pressures were, however, partially offset by slower increases in the price indices for "housing and utilities"; "health" and "furnishing and household equipment" in 2014.
25. Following a significant decline in international oil prices in the last quarter of 2014, domestic fuel prices were adjusted downwards by 270 cents per litre between

November 2014 and February 2015. As a result, transport inflation receded from double digits experienced throughout the second half of 2014 to single digits at the end of the first quarter in 2015. Food inflation also subsided in the opening months of 2015.

26. The medium term outlook for inflation is mixed. The relatively subdued international oil prices compared to the previous years is expected to keep inflationary pressures at bay especially transport related inflation.
27. However, inflationary pressures from food and administered prices remain imminent. Drought experienced in Swaziland and in South Africa (the main supplier of maize in the region) is expected to lead to an increase in food prices, especially in the second half of 2015.
28. On administered prices, electricity tariffs, Water Services and the anticipated 25 percent adjustment on public transport fares are expected to fuel inflation. The weakening Rand/Lilangeni against major trading currencies also continues to pose an upside risk to the inflation outlook.
29. The Central Bank inflation forecasts reflect that inflation will close the year on an upward trajectory averaging 5.3 percent in the second and third quarter then rising to 5.7 percent in the last quarter of 2015. The medium term

forecasts show that inflation will average 5.9 percent in 2016 and 6.1 percent in 2017.

EXTERNAL SECTOR

Programme director, distinguished ladies and gentlemen I will now turn to Balance of Payments developments in the domestic economy.

30. The country's external sector account continued to perform well in 2014. Despite an overall deficit of E252.3 million, the country's balance of payments recorded a surplus in the trade account and the current transfers account. The overall deficit during 2014 was mainly due to deficits recorded in the services and income accounts as well as the financial account.
31. In 2014 the current account recorded a lower surplus of E1.394 billion from a revised E2.248 billion surplus the previous year; the 2014 surplus is equivalent to 3.8 percent of GDP down from 6.6 percent in 2013. The 2014 surplus was dampened by a widening deficit in the income account during the year.
32. In 2014 the trade account posted a surplus of E2.307 billion, which was 18.2 percent higher than the surplus in 2013. The lower world oil prices eased the import bill during the review period, while the depreciation in the

local exchange rate against major currencies supported export receipts.

33. Export earnings from goods increased by 12.9 percent to E20.646 billion in 2014 compared to the previous year. Data show that 61 percent of the country's merchandise exports were destined for the South African market.
34. During 2014 the country's major exports continued to include traditional commodities, namely miscellaneous edibles, sugar and sugar based products, zippers, beef, textiles and minerals.
35. Imports of goods rose by 12.2 percent year-on-year to E18.340 billion in 2014, of which 87 percent originated from South Africa.
36. Swaziland continued to be a net importer of services in 2014, with services account recording a deficit of E4.867 billion which was marginally higher compared to a deficit of E4.858 billion recorded in 2013.
37. The income account deficit persisted in 2014, amounting to at E4.703 billion, reflecting a 32.7 percent increase from the previous year. The biggest drivers of income outflows were dividends and distributed profits paid by domestic companies to their non-resident shareholders. The rise in dividends indicates that domestic companies were still profitable in 2014.

38. The Current transfers account remained the major item financing the current account in 2014 with a surplus of E8.657 billion. SACU receipts dominated current transfers inflows amounting to E7.404 billion in 2014, up from the E7.131 billion in 2013.
39. Preliminary figures reflect that during 2014 the financial account deficit persisted for the third year in succession, widening to E1.752 billion, up from a deficit of E1.635 billion in 2013.
40. During 2014, foreign direct investment posted a net outflow of E310.3 million from a net inflow of E281.2 million the previous year. The deterioration in FDI was, to a large extent, attributed to a transfer of shares from a foreign entity to domestic investors in one of the major companies in the domestic forestry industry. During 2014 reinvested earnings net inflows increased by more than two folds to E710.5 million, reflecting that foreign investors have confidence in the Swazi economy as they ploughed back their profits.
41. The net outflow in the foreign portfolio investment account persisted in 2014, though subsiding to E294.3 million from E2.286 billion in 2013.
42. The other investment component of the financial account continued to be volatile in 2014, recording a deficit of E1.147 billion. Trade credits extended and

banking sector outflows contributed largely to the deficit in the other investment account.

43. Government continued servicing its external debt obligation with repayments on public and publicly guaranteed debt amounting to E155 million in 2014 against drawdowns of E 225.2 million, resulting in a net inflow of E70.2 million.

MONETARY SECTOR

Programme director, distinguished ladies and gentlemen I will now speak on monetary sector developments in the domestic economy.

44. Monetary conditions in 2014 and the first four months of 2015 were mixed but largely stable as the Bank's monetary policy tightened slightly in July 2014 and then remained unchanged for the rest of the year.
45. The tight monetary policy stance in July was pursued amid mounting inflationary pressures and outlook within domestic, regional and international markets. Accordingly, the bank rate was increased by 25 basis points to 5.25 percent in July and remained at that level throughout the rest of 2014 and the first four months of 2015.

46. The upward movement in the bank rate was lower than in South Africa where the repo rate increased by 75 basis points over the same period. This has resulted in a 50 basis points differential between the domestic bank rate and the SARB repo rate. This differential exists as an effort by authorities to lessen the burden of higher lending rates on borrowers thus encouraging banks to increase credit extension that will boost investment and economic growth.
47. The Bank will therefore, as in the past, find an opportune time to reduce the differential and align its bank rate to the repo rate. This will be done to normalise the situation, particularly, avoiding capital flight to South Africa for arbitrage purposes and further limiting the pressure on the country's foreign exchange reserves.
48. Short to medium-term outlook for monetary policy remains uncertain but largely stable against a backdrop of sharply lower global oil and other commodity prices which have reduced inflationary pressures substantially. However, moderate interest rates hikes are expected towards the end of the year. The broad stance of monetary policy will therefore be to keep inflation stable whilst providing support for accelerated economic growth.

49. Ladies and gentlemen, developments on Credit extended reflect that on a year-on-year basis, credit extended to the private sector continued to grow but at a slightly slower pace of 9.0 percent in March 2015 compared to 20 percent recorded the previous year. This was mainly a result of the levelling-off of credit from high levels induced by base effects and the lacklustre demand for credit by the business sector.

50. Annual credit to businesses, which represent the productive sector of the economy, grew by 4 percent compared to 22.6 percent recorded the previous year. The lower credit to businesses was mainly discernible in the manufacturing, mining & quarrying as well as community, social & personal services sectors. However, increases were registered in the agriculture & forestry, transport & communication and distribution & tourism sectors.

51. Annual growth in credit to the household sector, which contributes to consumer expenditure, slowed from 17.1 percent the previous year to 13.0 percent in March 2015.

52. Over the year ended April 2015, the country's gross official reserves declined by 1.1 percent to E8.6 billion. This was mainly attributed to higher growth in government expenditure vis-à-vis revenue growth compared to the previous fiscal year.

53. Consequently, the import cover of the reserves decelerated from 4.3 to 3.8 in April 2015. Though declining over the year, the import cover remained above the internationally acceptable minimum level of 3 months.
54. The short to medium-term outlook for the country's foreign exchange reserves is somewhat negative as SACU revenue for the fiscal year 2015/16 is projected to fall below the 2014/15 fiscal year's level. This calls for the government to accelerate expenditure restraint measures as well as to broaden the revenue base.
55. Money supply developments reflect that annual broad money supply (M2) grew by a lower 1.8 percent in March 2015 compared to 6.7 percent registered the previous year. Narrow money supply (M1) growth decelerated slightly from a high of 7.9 percent the previous year to 7.1 percent in March 2015.
56. Ladies and gentlemen, one of the major projects undertaken by Swaziland in the financial sector during 2014 was the development of a Financial Sector Development Implementation Plan (FSDIP). The FSDIP is a multi-year plan driven by the Ministry of Finance, the Central Bank and Financial Services Regulatory Authority (FSRA), with the support of the World Bank and IMF. The objectives of the Plan are to develop, strengthen,

deepen and modernize the entire financial sector in Swaziland.

57. In line with the practice in previous years, the Central Bank of Swaziland Governor met with the Managing Directors of Commercial Banks every month during 2014, with a view to discuss emerging issues. One of the key issues discussed in these monthly meetings during 2014 was the issue of bank charges. Noting the sensitivity and importance of the issue of bank charges in financial sector development the Central Bank has established a committee to look closely at this matter.

FISCAL SECTOR

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

58. A quick and brief review of the public budget reveals that the estimates for 2015/16 indicate that Government will run a deficit of E1.3 billion, corresponding to 3 percent of GDP.
59. On the financing of the budget deficit, the Minister of Finance indicated that about E1 billion will be sourced from the domestic debt market. To support that, the Bank has engaged the Financial Services Regulatory

Authority and other stakeholders to map a way forward on how to develop the domestic capital market.

60. Total public debt was recorded at E6.65 billion or 16.7 percent to GDP at end of March 2015. This marks an increase of 6.1 percent from the E6.27 billion recorded in March 2014.

61. Government Bond issuances during the 2014/15 fiscal year have not been successful. The domestic financing gap for the fiscal year 2014/15 was estimated at E800 million and a recommendation was made to raise the full amount through the issuance of domestic, fixed interest rate bonds. The rationale for raising the funds through bond issuances was mainly to lengthen the yield curve and reduce roll-over risk.

62. In the fiscal year 2014/15, the E600 million was offered at four (4) different auctions for papers of varying maturities (3, 5, 7 and 10 years). When taken as a whole, the key ratios indicate that the programme was undersubscribed with bids received recorded at 84 percent of the total amount offered. Allotments made amounted to E226.9 million indicating that only 38 percent of the amount sought was successfully raised. Impediments to the success of the programme include, but not limited to, the *"Low participation of Non-Bank Financial Institutions (NBFI*s)".

63. The poor market response indicates little scope to significantly increase the issuance of Government debt in the 2015/16 fiscal year. The Bank, in collaboration with Government and other stakeholders, will continue its efforts to stimulate activity in the domestic debt market.

BANK SUPERVISION.

Programme director, Ladies and gentlemen, I will now turn to speak on developments in Bank Supervision:

64. The Bank Supervision Division (BSD) of the Central Bank Swaziland is responsible for supervising banking and credit institutions in terms the Financial Institutions Act, 2005. The key objective of the division is to promote the soundness and stability of domestic banking system.
65. The Central Bank of Swaziland continues to receive enquiries on new banking licenses from prospective investors. The Bank welcome new entrants who will identify and serve a niche within the banking industry.
66. However, I must point out that the Central Bank is always careful in its evaluation and assessment of new applications to avoid instances of bank failures which would cause instability in the financial system. New applicants are therefore encouraged to conduct a due

diligence exercise on the development of their business concepts to ensure success of their applications

67. On the area of illegal deposit taking, the Bank Supervision Division will continue keeping a watchful eye on persons operating business that offer services deemed to be a regulated service in terms of Section 6 of the Financial Institutions Act, 2005. Illegal deposit taking remains the biggest single threat to the stability of the financial system.

68. I can say with confidence that the performance of the banking industry remains strong as indicated by positive growth in both assets and profitability. All institutions are in compliance with statutory requirements on liquidity, cash reserves and capital adequacy.

69. An analysis of the balance sheet of banking industry reveals that banks had capital ratios above the minimum statutory requirements in December 2014. The banks were in full compliance with the liquidity requirements level of 20 percent for commercial banks and 17 percent for the development bank.

70. Industry Income Statement indicates that the banking sector's profitability ratios remained strong throughout the year 2014. Pre-tax return on capital was 28.4 percent in December 2014, compared to 22.8 percent at the end of December 2013, while pre-tax return on

assets was 3.8 percent compared to 2.9 percent at the end of December 2013.

71. On other credit institutions, the Bank currently supervises three Credit institutions licensed under the Financial Institutions Act, 2005. It is worth mentioning that after promulgation of the Financial Services Regulatory Authority's Act, 2010, a new regulator is now in place to regulate and supervise all non-bank financial institutions. These institutions are now expected to be licensed under this new Act.

72. Programme director allow me to mention that the Central Bank is encouraged by the continuous improvement on the product range offered by the banking industry. Innovation and technology is continuously opening new opportunities for banking institutions to diversify products and reach markets that were previously excluded.

73. The BSD is currently working on exploring a migration to Basel II Capital Framework.

NATIONAL PAYMENT SYSTEM

Programme director, Ladies and gentlemen, I will now speak on the national payment systems.

74. The Central Bank of Swaziland will continue to support financial sector stability through promotion, regulation and supervision of designated national payment systems in 2015. The designated national payment systems are the Real Time Gross Settlement System (RTGS) operated by the CBS; and the clearing & settlement system that processes Electronic Fund Transfers (EFTs) and paper-based instruments (mainly cheques) operated by the Swaziland Automated Electronic Clearing House (SAECH).

75. In line with international best practice, the CBS will continue to encourage growth in electronic transfer of funds transactions to reduce risks and inefficiencies associated with processing of paper based transfer of funds. In order to grow activity in electronic payments associated with mitigation of financial risk, the Central Bank of Swaziland has engaged commercial banks to reduce cheque limits from E500,000-00 to E100,000-00 with effect from July 2015.

76. The CBS also continued to support the Swaziland Government Programme for financial inclusion under the Ministry of Finance. In an endeavour to inform and create public awareness to aspiring financial service providers, the CBS recently posted a "Practice Note on Mobile Money Transfer Operators" on its CBS website.

77. It is believed that Mobile Network Operators will continue to reach out to the unbanked population through researched, sound solutions and product outlay that meet the needs of the targeted consumer segments. Of priority here is the populace in the country side where financial services are lacking in terms of accessibility.

78. The CBS and the four commercial banks continued to transmit and settle cross-border transfer of funds through the SADC Integrated Regional and Electronic Settlement System (SIRESS) sponsored under the European Union Regional Economic Integration Support (REIS) Programme. Currently 63 banks from nine (9) SADC member countries are active on SIRESS. The SIRESS activity hit ZAR 1 trillion on 29th April 2015.

EXCHANGE CONTROL

Programme director ladies and gentlemen, I will now move forward to speak on the important subject of exchange controls.

79. A cautious approach has been adopted by the Bank in ensuring that exchange controls liberalization are done gradually, taking cognizance of the fact that relaxations must be approached from a position of strength to ensure that information loss is minimized if not totally eliminated and data accuracy is not compromised. This will be achieved through enhanced offsite surveillance by the Exchange Control Division.

80. The introduction of new remittance methods by banks as well as Money Transfer Operators (MTO's) driven by technological innovations which are not properly addressed by prevailing Central Bank legislation has been observed in the last few years. Rather than stifle growth, efforts are continuously being made by Central Bank to amend legislation to accommodate such new products to cater for domestic as well as cross border transfers.

81. On the important subject of anti-money laundering, the introduction of the new methodology in the assessment of compliance by the Financial Action Task Force (FATF) to international Anti-Money Laundering, Combating of Terrorist Financing and Proliferation of Weapons of Mass Destruction has brought a challenge to countries that are expected to come up with legislation to combat these crimes. Another Key Area of importance is the international and national cooperation in terms of information sharing given the fact that these crimes are cross jurisdictional.

82. Emphasis now lies on demonstrating the effectiveness of existing controls to deter and detect money laundering and terrorist financing and not just the mere existence of internal controls. Countries are also expected to

produce statistics on the number of successful cases on Money Laundering and Terrorist Financing which have been tried in courts of law to demonstrate the effectiveness of their laws.

FINANCIAL STABILITY UNIT

Programme director, distinguished Ladies and gentlemen, allow me at this point to move to the subject of financial stability.

83. The macro-prudential policy approach is dependent on the co-operation with other policy making and regulatory authorities. While the mandate of financial stability lies with the Central Bank, other regulators must also take into account the financial stability implications of their activities. This translates to the Bank taking a leading and co-ordinating role as it is not solely responsible for financial stability.
84. There are still important limitations in terms of the link between real and the financial sector and significant data gaps coupled with the current model of micro prudential tools.
85. A number of initiatives are underway to enhance the data infrastructure. One such initiative is to work on the arrangement for information exchange with FSRA to

promote effective data sharing so as to strengthen the assessment of system-wide risks at national level.

MATSAPHA CASH CENTRE

86. One of the recent major achievements by the Central Bank is the establishment of the Matsapha Cash Centre which has been in Operation since June 2014. The centralisation of the operations at Matsapha has come with reduction in costs and improvements in the working conditions of the staff thereof.

87. CBS installed high speed processing machines at the Cash Centre which processes 42 000 to 50 000 pieces per hour and soiled notes are shredded and briquetted on-line to ensure Clean Bank Note Policy. The Matsapha Cash Centre has improved security in the management of cash. There are other numerous benefits from the Cash Centre operations which include increased efficiency of services to commercial banks, reduction of cash movement and related risk and increased forecasting of cash requirements.

ISSUING AND REDEEMING OF CURRENCY

88. During the year ended 31st March 2015 notes issued amounted to E4.4 billion compared to E4.1 billion issued the previous year, whilst coins issued over the year to March 2015 amounted to E18.5 million, up from E13.7

million the previous year. Currency in circulation increased from E712.4 million in March 2014 to E780.6 million in 2015

89. The Central Bank continued with its efforts to make available good quality currency in the Kingdom during 2014. We have been able to listen to various concerns raised by the public and have put in place reforms to incorporate these in our currency. The Bank will be launching a new issue of E10 note in the current year to deal with the challenges faced by the public coming out of the similarity of the current E10 note to the R100 note. To ensure that visually impaired persons are able to easily distinguish the various denominations of our notes, the Bank is in the processing of finalizing logistics for the supply of a note test card to be issued for free to all visually impaired persons in the country. The Bank is also working on a new series of coins and these will have more advanced features to enable visually impaired persons to distinguish them. This program will entail that the existing series of coins in circulation will be phased out of circulation over time.

90. The Bank started operating on a new state of the art cash processing centre in June 2014. This has seen us being able to improve cash management processes between the Bank and the commercial banks such that we now are in a

position to process up to 50 000 notes per hour. This has then resulted to us being able to process deposits from Banks real time and give immediate value to depositing Banks. This centre has also allowed us to utilize more environmentally friendly means of destroying soiled notes which are no-longer fit for circulation instead of burning them as we did in the past.

MODERNISATION OF CENTRAL BANK AND NETWORK DEVELOPMENT

91. As part of our 2015 to 2018 strategy cycle, the Bank is focusing on modernising its process. Key in this strategic objective will be improving our Research section with a view to generate improved and timely data for more effective monetary policy. Further, relevant research will be conducted for enhanced monetary policy formulation.
92. The improvements in our research will entail the strengthening and expansion of our relations with other relevant institutions in the country such as Swaziland Economic Policy Analysis and Research Centre (SEPARC), The Central Statistical Office (CSO), Financial Services Regulatory Authority (FSRA), UNISWA and other tertiary institutions.

CONCLUSION

93. In conclusion, I would like to mention that global economic recovery is expected to continue consolidating, led by developed countries and mainly the US. Emerging markets performance is expected to remain subdued in the short to medium term, mainly undermined by low commodity prices.

94. The low commodity prices are expected to continue keeping inflationary pressures in both developed and developing countries under control, giving countries room to keep policy rates at low levels to boost economic activity. Despite the existing opportunities for low interest rates, it is anticipated that countries will start tightening policy rates in the short to medium term.

95. In the domestic economy, the establishment and operation of the Swaziland Financial Services Regulatory Authority (FSRA) present an opportunity for the full scale supervision of the entire financial sector in the country. In its operations, it is expected that domestically generated savings will be used for the development of the country as the 30 percent local asset requirement rule is enforced.

96. The FSRA is encouraged to further define and disaggregate local asset requirement by giving more

weight on investment in priority sectors, and minimum weight to all cash held at banks, in order to deter the current practice which undermines the policy through Non-Bank Financial institutions keeping the money in commercial banks and fund managers, only for the money to find its way out of the country.

97. As part of the drive of the Bank to be a benchmark and to be amongst the top five Central Banks in the region, the Bank plans to develop a roadmap that will migrate it towards Basel III compliance.
98. As I conclude, it is important to mention that we are at a point where interest rates have reached their lowest levels and going forward we are expecting interest rates to start charting an upward trend in the region and in the domestic market. The tightening of monetary policy will be carefully monitored to ensure that it has minimal negative effects on our low growth.
99. Finally, I would like to point out that in the cause of pursuing its mandate the Bank will drive the financial inclusion agenda, while not compromising on the health of the financial sector, recognizing the advantages brought by technological advancement. Further, through the operations of the Financial Stability Unit and cooperating with government and other regulators in the financial sector, the Bank will have the pulse of the

financial sector in terms of financial stability levels at any given time.