GOVERNOR'S ANNUAL MONETARY POLICY STATEMENT ADDRESS

2 MAY 2019 | HAPPY VALLEY HOTEL

Programme Director

Honourable Minister of Finance

Members of both Houses of Parliament present here

Board of Directors of the Central Bank of Eswatini

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

Ensuring Price and Financial Stability to Support Economic Growth under Fiscal Consolidation

1. It is an honour for the Bank to present the Annual Monetary Policy Statement for 2019/20. This address is made under an aura of optimism with His Majesty's Government refreshed and raring to resolve some of the challenges that have plagued the economy over the past few years.

2. Programme director, I would like to take this opportunity to thank the Ministry of Finance and all other stakeholders who continuously support Central Bank as it pursues its founding objective of price and financial sector stability.

3. The Bank has not deviated from its mandate, despite tough economic conditions in the global, regional and domestic environment, which continuously posed a threat to the Bank's price and financial stability objective.

4. With inflation moderating in the year 2017/18, the Central Bank found it appropriate to cut the discount rate by 25 basis points in March 2018 to settle at 6.75 per cent. It has remained at the same level to-date. This confirms the Bank's commitment to support the economy during tough economic conditions whilst remaining true to its primary mandate of price stability.

5. Inflation remained stable over the year 2018 and averaged 4.81 per cent for the year. However, upward risks to inflation have begun to emerge and inflation is projected to be on a slight upward trajectory in the short to medium term, with the Bank projecting it to average 5.41 per cent in 2019.

6. The price and financial stability objective will continue to guide monetary policy formulation and implementation in the Kingdom of Eswatini.

7. The presentation this morning provides a review of key developments in international, regional and domestic economies that have a bearing on monetary policy setting in the Central Bank of Eswatini. It will cover recent monetary policy decisions and give guidance, where possible, about the direction of monetary policy in the coming year.

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

8. According to the IMF, global growth moderated to 3.6 per cent in 2018, from 3.8 per cent in 2017 and it is projected to decline further to 3.3 per cent and 3.6 per cent in 2019 and 2020, respectively. IMF indicates that risks are skewed towards the downside, with policy uncertainty associated with escalation of trade tensions deemed to further weaken growth.

9. Advanced economies grew by 2.2 per cent in 2018, from 2.4 per cent in 2017. Growth is projected to decline further to 1.8 per cent in 2019 and 1.7 per cent in 2020.

10. Emerging Market and Developing Economies (EMDEs) expanded by 4.5 per cent in 2018, following a 4.8 per cent growth in 2017. Their GDP growth is projected to marginally fall to 4.4 per cent in 2019 before improving to 4.8 per cent in 2020.

Programme director, I will now turn to inflation developments in the global economy.

11. Among advanced economies, consumer price inflation has generally remained subdued, following a decline in commodity prices. In 2017, consumer price inflation in advanced economies was recorded at an average of 1.7 per cent and hiked to 2.0 per cent in 2018. Recent IMF projections indicate that inflation will average 1.6 per cent in 2019 and 2.1 per cent in 2020.

12. Inflation in Emerging Markets and Developing Economies (EMDEs) was range bound, hovering between 1 per cent and 5.5 per cent. In 2018, EMDEs' inflation averaged at 4.8 per cent, and is projected at 4.9 per cent for 2019.

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

13. Generally, financial conditions in advanced economies have tightened since the second half of 2018. At the beginning of 2018, the US FED maintained its target range of the federal funds rate unchanged at between 1.25 – 1.5 per cent and continued on a steady tightening cycle raising interest rates four times to settle at 2.25-2.5 per cent in December 2018.

14. In 2019, the US FED has so far held the target range for the fed funds rate unchanged at 2.25 – 2.5 per cent, and signalled that it now expects rates to remain at current levels at least until the end of the year, compared to December 2018's projection of two rate hikes in 2019.

15. Other central banks appeared to be adopting a more cautious approach, with the European Central Bank maintaining its refinancing rate at 0 per cent throughout 2018. The Bank of England maintained the bank rate at 0.5 per cent over the first half of 2018, and only effected a 25 basis point increase to 0.75 per cent in July 2018, which prevailed for the remainder of the year 2018 to date.

Programme director, allow me to now look at economic developments in the neighbouring South Africa which is Eswatini's major trading partner.

16. The annual estimate of real GDP for 2018 increased by 0.8 per cent following a growth of 1.4 per cent in 2017. This growth was due to increased economic activity in finance, real estate and business services.

17. The South African economy was in a technical recession for the first half of 2018. It contracted by 2.7 per cent in the first quarter before a further contraction of 0.5 per cent in the second quarter. It rebounded in the third quarter recording a 2.6 per cent growth and another 1.4 per cent growth in the fourth quarter, enough to push overall growth for the year into positive territory.

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18. However, growth prospects deteriorated in early 2019, hurt by renewed unreliable and limited electricity supply, continued legislative and political uncertainties and slowing global economic growth momentum.

19. Latest GDP forecasts coming from the South African Reserve Bank (SARB) confirm that growth remains subdued for the short to medium term, even though on an upward trajectory. The SARB forecasts the economy to grow by 1.3 per cent in 2019, 1.8 per cent in 2020 and 2.0 per cent in 2021.

20. Year-on-year inflation as measured by the consumer price index (CPI) averaged 4.6 per cent in 2018, compared to an average of 5.3 per cent in 2017. In February 2019, the annual inflation rate stood at 4.1 per cent, 0.4 percentage points below the mid-point of the target range. The SARB forecasts inflation to rise to 4.8 per cent in 2019, before increasing to 5.3 per cent in 2020 and moderating to 4.7 per cent in 2021

21. The SARB maintained its benchmark repo rate at 6.5 per cent for the better part of 2018 before raising it to 6.75 per cent at its November 2018 Monetary Policy Committee (MPC) meeting. The SARB's MPC remains of the view that current challenges facing the economy are primarily structural in nature, and therefore cannot be addressed by monetary policy only. Furthermore, the MPC believes that it is the prioritisation and implementation of credible structural policy initiatives that would make a marked impact on potential output and employment and lower the cost structure of the economy.

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

22. During the year 2018, monetary conditions remained accommodative, in line with generally subdued inflation outcomes. Throughout the period under review, inflation was well contained within a range of 4 and 5.3 per cent. Monetary policy was relaxed once in March 2018 as the discount rate was reduced by 25 basis points from 7 per cent to 6.75 per cent. Over the course of 2018, the Central Bank eliminated the differential between the discount rate and the South African repo rate. This was done taking into account economic data for the Kingdom of Eswatini.

23. ***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.***

24. Economic activity, as measured by real GDP, is estimated to have grown by 0.6 per cent in 2018 from 1.9 per cent recorded in 2017.

25. The ongoing government's cash flow challenges triggered the accumulation of domestic arrears and reinforced the need for fiscal consolidation which manifested through cuts in both recurrent and capital expenditure as well as increases in some tax rates and fees in the 2018/19 fiscal year. This weighed negatively on construction activities and other services sectors.

26. The primary sector is estimated to have grown by 5.9 per cent in 2018 from a contraction of 4.2 per cent recorded in 2017, mainly boosted by better performance in crop and animal production, which were supported by favourable weather conditions in the review period.

27. A stagnant growth is estimated for the secondary sector in 2018, down from 3 per cent in 2017, due to subdued manufacturing and construction activities.

28. The tertiary sector is estimated to have grown at a slower rate of 0.2 per cent in 2018 compared to 2.0 per cent in 2017.

29. Even though the short-to-medium term growth outlook is expected to remain challenged as the fiscal situation is not expected to improve (at least in the short term), it is expected to gradually recover in the medium term.

30. Growth in 2019 is forecasted at 1.1 per cent, a downward revision of 0.6 of a percentage point from the September 2018 projections. The revision is in line with the lower output than earlier anticipated in the growing of crops.

31. I would like to appreciate efforts by the Central Statistics Office and the Central Bank of Eswatini which have resulted in the March 2019 release of the first set of quarterly GDP figures with a historical series from 2013 to 2019.

32. Recent trends reflect that after recording a negative growth of about 3 per cent in the second quarter of 2018, the economy had a stronger rebound in the second half of the year, increasing by 3.7 per cent in the third quarter of 2018 before slowing down to 1.5 per cent in the last quarter of 2018.

33. Positive growth was mainly observed in the 'wholesale and retail', 'communication' and 'financial services' while 'manufacturing', 'mining and quarrying', 'hotels and restaurants' and 'construction' performed poorly.

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

34. The annual headline consumer inflation averaged 4.8 per cent in 2018, down from 6.2 per cent in 2017 as inflationary pressures were on the downside for most part of the year. 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.

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35. Food inflation recorded an overall zero growth in 2018 compared to 8.1 per cent in 2017. Favourable weather conditions resulted in an improvement in food production both locally and regionally, supporting a deceleration in food prices.

36. Core inflation, which is CPI excluding food, auto-fuel and energy, averaged 6.7 per cent in 2018 compared to 5.5 per cent in 2017 reflecting that underlying inflationary pressures were on the upside in 2018.

37. Latest figures indicate that annual consumer inflation slightly rose from 5.1 per cent in February 2019 to 5.3 per cent in March 2019. The increase was mainly due to increases in prices for Transport and Food and Non-alcoholic beverages.

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

38. Annual growth in credit extended to the private sector persisted but at a lower rate of 6.0 per cent at the end of February 2019, down from 11.0 per cent in February 2018. The growth in credit extended to the private sector was largely underpinned by the relatively lower borrowing rates during the review period.

39. Annual credit to the business sector grew by 12.0 per cent in February 2019 compared to 5.0 per cent recorded the previous year. The rise in credit to businesses was mainly discernible in the Manufacturing, Construction, Distribution & Tourism, Transport & Communications and the Mining & Quarrying sectors.

40. Year-on-year credit extended to the household sector declined by 2.6 per cent in February 2019, contrary to the growth of 5.8 per cent recorded the previous year. Within the household sector, the decline was attributed to a fall in motor vehicle and housing loans.

41. Credit extended for motor vehicles contracted by a notable 17.1 per cent in February 2019 after falling by 6.7 per cent the previous year. Credit for housing purposes contracted by 0.4 per cent in February 2019 compared to a growth of 6.5 per cent registered the previous year.

42. Other personal loans grew by 3.6 per cent in February 2019 compared to 15.5 per cent growth recorded the previous year.

43. In the short to medium-term, growth in private sector credit is likely to remain positive, reinforced by persistent recovery in agricultural production owing to good rains obtained as well as subdued lending rates.

44. Gross official reserves declined by 31.2 per cent over the year ended March 2019 to reach E4.6 billion; compared to a high of E6.6 billion in March 2018. The fall in reserves was largely attributed mainly to lower SACU receipts during the

2018/19 fiscal year at E5.8 billion compared to E7.1 billion during the 2017/18 fiscal year. Accordingly, the reserves were enough to cover 2.0 months of imports, lower than 3.2 months recorded the previous year. At this level, the import cover was below the internationally recommended level of 3 months.

45. Short to medium-term prospects for a turnaround in the reserves are positive as Government's cash flow challenges may ease somewhat as SACU receipts for the 2019/2020 fiscal year are estimated to increase slightly. Coupled with fiscal consolidation measures, and the implementation of initiatives by the Bank to boost the country's reserves, the position is expected to be better for 2019/20.

46. Year-on-year broad money supply (M2) grew slightly by 1.9 per cent in February 2019, lower than the 15.4 per cent growth realised the previous year. The growth was largely supported by the growth in credit extended to the private sector.

47. Notably, narrow money supply (M1), which is an indicator of depositors' propensity to spend, went up by 2.5 per cent in February 2019 compared to 13.7 percent recorded the previous year.

48. The exchange rate of the Lilangeni/Rand against major currencies depreciated in the year 2018. The local unit opened the year 2018 at an average of E12.20 to the US Dollar. It ended the year at an average of E14.20 to the greenback mainly due to policy uncertainty in South Africa around the land policy and the slow pace and apparent weak political will to tackle corruption.

49. The local unit strengthened in the first quarter of 2018 against major currencies following a positive budget delivered in South Africa.

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

50. You may recall, ladies and gentlemen, that the national budget for the year 2019/20, was presented by the Minister of Finance on 27 February 2019. This budget was presented in the wake of unprecedented tough economic conditions experienced over the past few years.

51. The Honourable Minister indicated that the overall budget balance for 2019/20 is projected to stand at minus E3.0 billion, which is equivalent to a deficit of 4.4 per cent to GDP. This depicts a slight improvement from the revised deficit of 5.4 per cent of GDP projected for the end of 2018/19 financial year. This was against the actual outturn of a minus E2.9 billion for 2017/18, which is an equivalent of 4.6 per cent deficit.

52. Total revenue for 2019/20 is projected to reach E18.9 billion, marking an increase of about 17 per cent. The increase is as a result of the proposed

revenue policies that are envisaged to be implemented during the 2019/20 fiscal year.

53. While SACU receipts remain a relatively large contributor to government revenues, currently contributing 34 per cent of total revenue, SACU contributions to total revenue is on a downward trend as VAT and PAYE improve. The increase in revenue is set to come from improvements in SRA domestic collections and from the implementation of the new revenue measures.

54. Preliminary figures for the period ending February 2019 indicate that total public debt stood at E16.1 billion; an equivalent of 26.2 per cent of GDP. This represents an increase of 42.5 per cent when compared to the opening position of E11.3 billion for the 2018/19 fiscal year.

55. The increase in debt was mainly driven by the financing needs of government. During the period under review, domestic debt increased by 60.5 per cent from E6.1 billion to E9.8 billion.

56. On the other hand, external debt increased by about 21 per cent from E5.2 billion to E6.3 billion. This increase takes into account payments made to active loans, drawdowns made on project loans as well as valuation changes.

57. During the 2018/19 financial year, the Government of Eswatini in collaboration with the Central Bank of Eswatini continued to issue bonds under the Normal and Infrastructure Bonds Programmes already listed in the Eswatini Stock Exchange.

58. I wish to take the opportunity to congratulate FSRA for the official launch of the Automated Trading System (ATS) and rebranding of Eswatini Stock Exchange (from Swaziland Stock Exchange). The automation comes with mobile trading. This is a milestone for the Exchange.

59. Private placements, which are of shorter term duration compared to the above-mentioned bonds, were also issued with various financial institutions under the Suppliers' Bond Programme.

60. Whilst it is recognised that these programmes assisted Government in meeting its short term needs, these were also geared towards developing the domestic financial market and for purposes of managing liquidity in the economy.

61. On the overall, a sum of about E1.9 billion was raised from the domestic market in the year 2018/19, of which E1.2 billion raised through private placements.

62. After receiving the first Sovereign credit rating by Moody's in 2017, the ratings agency recently affirmed Eswatini Government's credit rating at B2 with negative

outlook, which was unchanged from the first rating. Moody's indicated they would consider changing the ratings outlook on evidence of government implementation of the significant fiscal adjustment plan that would ease liquidity pressures and slow the increase in the country's debt burden.

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

63. Preliminary figures for 2018 indicate that the current account surplus continued in 2018, though declining by 39.5 per cent from the surplus of E7.385 billion in 2017 to a surplus of E4.466 billion in 2018.

64. The slowdown in the current account balance was attributed to a deficit posted in the goods account coupled with a narrower surplus recorded in the secondary income account.

65. The goods account switched from a surplus of E3.058 billion in 2017 to a deficit of E250 million in 2018 mainly on account of stagnating exports when compared to imports, as the growth in imports overshadowed the growth recorded in exports.

66. Export earnings in 2018 amounted to E24.650 billion depicting a marginal increase of 2.9 per cent year-on-year from E23.952 billion in 2017.

67. The import bill on the other hand amounted to E24.900 billion in 2018 up by 19.2 per cent from E20.893 billion in 2017.

Programme director, distinguished ladies and gentlemen, allow me to talk about the inflation outlook and monetary policy stance

68. Monetary policy is expected to remain broadly accommodative in the next few months. There is uncertainty in the short to medium term, with inflation forecasts showing upward pressures. The inflation forecasts are influenced by upside risks posed by a weaker exchange rate, broad price pressures coming from the proposed implementation of VAT on electricity, increases in sin taxes and increases in administered prices.

69. On the international front, oil prices are expected to moderate with the US increasing its oil supply in an effort to counter OPEC's decision to restrict oil supply thus posing a downside risk to inflation.

70. The Bank expects inflation to average 5.41 per cent in 2019, up from an average of 4.81 per cent recorded in 2018.

71. The Central Bank will monitor any developments and respond appropriately in order to maintain price stability supportive to economic growth.

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Programme director, distinguished ladies and gentlemen, I will now turn to the Banking Sector.

72. Ongoing surveillance of the domestic banking system is equally important in the Bank's pursuit to foster financial sector stability as it provides financial soundness indicators that serve as early warning signs in the detection of vulnerabilities in the banking sector. The health of the banking system is seen as integral in stimulating economic growth and development in the country.

73. The banking sector's total assets amassed E20.4 billion in the fourth quarter of 2018 from E20.3 billion reported in September 2018, depicting a slight 0.72 per cent increase.

74. The banking system was adequately capitalised with an industry Capital Adequacy Ratio (CAR) of 20 per cent. However, the banking system is threatened by deteriorating asset quality as evidenced by an increase in non-performing loans (NPL) ratio. The NPL ratio worsened to 9.3 per cent in December 2018 from 8.1 per cent recorded in September 2018.

75. In line with the Basel II implementation blueprint, the Bank went live on 1st April 2018, with the first Pillar 1 compliant returns submitted in the second quarter of 2018. The Bank has developed an implementation work plan for the two remaining Pillars.

76. The year 2018, saw the Bank issuing a banking license to a new entrant namely; Farmers Bank (Pty) Ltd., which is a 100 per cent foreign owned entity and is yet to commence operations.

Programme director, I will now speak on the national payment systems and Fintech Issues.

77. Eswatini payment & settlement systems continue to be a key component of the financial system. Any disruption to the payment & settlement systems would have adverse consequences for the country's economy.

78. The Eswatini National Financial Inclusion Strategy for 2017-2022 makes a commitment to grow the percentage of adults with access to formal financial products from 43 per cent to 75 per cent by, amongst other things, growing mobile money and remittances and deepening reach in financial services.

79. The Bank supports this target through various support to institutions that provide these services in ensuring that they deliver quality and affordable services to the people of Eswatini. In the past year, the Bank licensed a second mobile money service provider and approved a cross-border remittance product offering by one of the mobile network operators.

80. The Bank is alive to the risks posed by new products and emerging technological trends in digital financial services. The Bank, through its Fintech Unit, recently launched a Regulatory Sandbox which is an environment set up to allow Financial Technology (Fintech) start-ups and other innovators to conduct live experiments in a controlled environment under appropriate supervision.

81. This platform will allow for better understanding of domestic and global innovation trends and the potential impact in our economy and how regulation can better catch up with technological advancement.

82. Furthermore, the Bank's work on Fintech will soon extend to research on the impact of central bank digital currencies (CBDCs), and most importantly on the impact of such innovations on the transmission mechanism of monetary policy.

83. The Bank continues to undertake reforms in the payment systems legal framework and I am delighted to report that the Bank successfully finalised the review of the Practice Note for Mobile Money Service Providers. A review of the five (5)-year NPS Vision and Strategy Framework to guide developments in the national payment systems space is amongst the Bank's upcoming projects.

Programme director, ladies and gentlemen, I will now move forward to speak on anti-money laundering issues.

84. Following technical assistance received from the International Monetary Fund, the Central Bank has developed an anti-money laundering and counter financing of terrorism risk-based supervisory framework.

85. This framework will assist the Bank in identifying and understanding the money laundering and financing of terrorism risks in all accountable financial institutions under regulation by the Central Bank.

86. The Eastern and Southern African Anti-Money Laundering Group has scheduled a Mutual Evaluation Assessment for the country in 2020 to evaluate the country's compliance with international standards on anti-money laundering and counter terrorist financing.

87. The Bank will improve its controls by addressing the gaps that have been identified during a recent mock mutual evaluation exercise, whilst ensuring that a robust supervisory framework is in place to maintain the integrity of the financial system.

88. The Bank wishes to emphasize the importance of complying with our legislation and international standards in curbing money laundering and financing of terrorism. There are stringent regulatory assessments undertaken by the Financial Action Task Force and other international financial institutions. Any non-compliance to the AML/CFT legislations by any country is punished harshly

by the international financial community. Suddenly a country finds itself not able to make international payments as correspondent bank relations (for individual banks or the whole country) are brutally severed or cut without negotiations as the international community deems it to have weak measures or institutions to combat money laundering.

89. In this global village that we live in, Eswatini cannot afford to find itself excluded from partaking in the global financial system. It is for that reason that the Central Bank of Eswatini wishes to appeal for extra caution when the country receives unsolicited '***too good to be true***' potential financing. We need to do the necessary due diligence before we enter into relations with such potential financiers. The Bank will continue to guard this selfishly for the interest of the country, and therefore appeal for understanding. The Bank commits to continue developing solid links with international partners to ensure that its capacity to undertake due diligence on any entity or individual, is enhanced.

Programme director, distinguished ladies and gentlemen, let me move to exchange controls

90. The Bank continuously strives to introduce relaxations in Exchange Controls in an attempt to improve the ease of doing business in the kingdom of Eswatini in line with Government initiatives.

91. The Bank has an ongoing project whose main objective is to move from a strict exchange control regime – which requires economic agents to seek prior approval for exchange control classified transactions – to a regime of financial surveillance- which emphasises increased liberalisation and enhanced monitoring. This shift entails empowering local Authorised Dealers (banks and bureaus) to authorise foreign exchange transactions on behalf of their customers without the need to obtain prior Central Bank approval.

92. The mandate of the bank, however, remains unchanged, but is underpinned by the collection, analysis and dissemination of cross-border foreign exchange flows. To enable the initiative to be successful, two relaxations were introduced: ***Firstly***, individual investors can now invest a maximum of E4 million per annum, and ***Secondly***, the facilities for foreign investment by institutional investors have been increased by 5% across all facilities.

93. It is important to note that sensitive transactions of national interest and/or strategic importance will still require prior Central Bank approval. Investors are requested that should they be in doubt, they should contact the Financial Regulation Department.

Programme director, ladies and gentlemen, I will now move on to speak on Currency Operations.

94. During the period ended 28th February 2019, notes issued amounted to E5.4 billion compared to E6 billion issued in the same period the previous year, whilst coins issued over the period to February 2019 amounted to E23.4 million, indicating a decrease from the E25.7 million issued in the prior year.

95. The release of the new E200 and E100 notes in April 2018, with enhanced security features, was a success and well received by the public.

96. All our new banknotes and coins going forward will, gradually, show the effect of the country's name change from Swaziland to Eswatini, including the name change of the Bank from Central Bank of Swaziland to Central Bank of Eswatini.

97. During the period under review, the dye stained guidelines issued by the Bank have since been operationalised. These are aimed at mitigating the risk of ATM bombings and/or cross-pavement carriers through dye staining of banknotes via Currency Protection Devices (CPDs).

98. The public is warned not to accept any stained banknotes as these may be the proceeds of crime. Instead efforts should be made to report such to the nearest police station. Nawe uliphoyisa! The public is further warned not to be fooled by people who claim they have chemicals to clean dye-stained notes.

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

99. In 2018, the Financial Stability Unit (FSU) published the second edition of the Annual Financial Stability Report (FSR) and presented it to stakeholders through a media briefing.

100. It was noted that since the first publication, risks to financial stability stemming from the external economy, domestic economy and corporate sectors increased somewhat.

101. Challenging domestic conditions and external spillovers continued to contribute to lethargic economic outlook in the short to medium term. On the other hand, risks from the banking sector subsided, whilst risks emanating from payment systems, non-banking sector and household debt remained constant.

102. In January 2018, the Ministry of Finance launched the country's National Financial Inclusion Strategy (NFIS), which covers the period from 2017 to 2022.

103. Significant progress has been observed in the financial inclusion space in Eswatini, which includes an observed increase in the usage of mobile money

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services. With the licensing of Eswatini Mobile as an official mobile money services provider, there has been further growth in mobile money services usage.

104. The latest assessment indicates that Eswatini has made commendable strides in improving financial inclusion. The number of financially included has increased from 414,000 in 2014 to 553,000 in 2018. The proportion of the excluded adult population has declined from 27 per cent in 2014 to 13 per cent in 2018. The proportion of the formally served went up to 85 per cent in 2018 from 65 per cent in 2014. This is a huge stride.

105. The Bank acknowledges the importance of improved and increased financial inclusion, consumer protection and financial education for financial stability and inclusive development.

CONCLUSION

106. Allow me to conclude by highlighting key messages coming from this year's annual monetary policy statement.

a. Monetary policy has been broadly accommodative as inflationary pressures were on the downside for most part of the year.

b. The ongoing government's cash flow challenges continue to pose downside risks to the country's economic growth prospects. This is further compounded by the weak global and regional economic environment. The government cash flow challenges continue to be a concern for monetary policy implementation for the country.

c. The current reserve position is not acceptable to the Central Bank of Eswatini. Efforts are underway to ensure that the acceptable level of reserves is restored. I hope we can rely on the Government to build on the work of the Central Bank of Eswatini in accumulating reserves above the SADC Macroeconomic Convergence target of 6 months of import cover in the medium term.

d. The banking sector remains sound, sustainable and meets all statutory requirements. The risks to this stem from deteriorating asset quality as NPLs rise. The minister's plans to urgently settle domestic arrears is supported and will go a long way in reversing this trend.

107. The Bank will continue to monitor 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.

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108. Allow me to pass my sincere thanks to my colleagues at the Bank, and particularly the team I worked with to draft this statement. I also wish to thank them for arranging this event. I say keep up the good work.

I thank you!!!

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