percent for the better part of 2011 which augured well for economic activity. Credit extended to the private sector rose by 2.8 percent in November 2011, mainly driven by increased lending to other non-financial corporations' (industry) and household sectors. Credit extended to industry increased by 3.2 percent, while credit extended to households and non-profit institutions serving households rose by 3.3 percent.

Swaziland's financial system remains stable amid the ongoing government's cash flow problem due to continued prudent supervision and oversight of the banking system. In July 2011, the central bank introduced a minimum liquid asset requirement in order to anchor financial sector soundness by ensuring that the banks hold appropriate levels of liquidity and cash reserves especially in light of the prevailing fiscal situation. Nonperforming loans have not increased significantly to indicate that the financial system is at risk. However, the central bank remains fully aware of the emerging risks for the banking sector and through its supervision department, continues to monitor developments in the banking system. In addition, a cash flow committee comprising the central bank and ministry of finance has been tasked to monitor government's cash flow position closely.

Exchange rate policy developments

The Swaziland authorities remain committed to the fixed exchange rate regime. They have undertaken to protect the 1 to 1 peg with the South African rand and remain mindful that a divergence from the peg has significant downside risks and would be detrimental for the economy. Despite the precarious cash flow situation, my authorities have refrained from making significant draw downs on government deposits with the central bank. At the end of November 2011, the country's gross official reserves stood at E4.4 billion, reflecting a 2.8 percent increase from the previous month. The moderate rise in reserves was due to revaluation gains from the depreciation of the rand against major trading currencies over the month. At this level, the reserves were enough to cover 2.5 months of imports of goods and services, higher than the 2.4 months cover recorded in October 2011. The government continues to seek other options to finance the fiscal deficit with the aim of minimizing draw downs on reserves and protecting the peg. The unavailability of external support renders these efforts extremely difficult.

Conclusion

My authorities value Fund advice and are committed to continued engagement. They are aware of the urgent need to implement the much needed reforms in order to anchor macroeconomic stability.