Monetary Policy Statement – January 2015

The Central Bank of Swaziland (Bank) in consultation with the Monetary Policy Consultative Committee (MPCC) held a meeting on 30th January 2015 to formulate its monetary policy stance.

Considering the international, regional and domestic economic conditions, the Bank in consultation with the MPCC decided to maintain the Bank rate at 5.25 percent.

The main underlying rationale for the Bank to maintain the Bank rate was the slow growth in credit to the private sector coupled with the decline in inflation from 6.6 percent in November to 6.2 percent in December 2014. Annual growth in credit extended to the private sector grew but at a slower pace of 5.9 percent in November 2014 compared to 13.6 percent growth recorded in September 2014. The subdued credit levels were mainly a result of reduced demand emanating from low economic activity. The Bank remains concerned about the not so impressive growth in credit extended to the private, particularly for investment purposes, despite the low Bank rate.

As at 23rd January 2015, the country's gross official reserves stood at E8.9 billion, depicting a 3 percent decline from the preceding week. At this level, gross official reserves were enough to cover 4 months of estimated imports of goods and services, well above the internationally acceptable threshold of 3 months. The contraction in reserves was on account of payment of government's external obligations coupled with Rand sales to domestic commercial banks.

Looking ahead, the medium-term inflation outlook is uncertain since the Rand/Lilangeni has depreciated from E10.7 in July down to E11.6 in December 2014, against the US Dollar. The volatile exchange rate continues to pose inflationary pressures to domestic inflation. However, inflationary pressures will be offset somewhat by falling international oil prices which have started filtering into the domestic economy, resulting in a reduction in fuel prices by 30 cents in November 2014, by 40 cents in December 2014 and by 60 cents in January 2015. International oil prices have fallen from US$106 per barrel in July 2014 to US$46 per barrel at the end of January 2015.

Therefore, by maintaining the rate unchanged commercial banks are encouraged to pass on the benefit derived from the prevailing low rates to their customers supporting the country's economic growth and development.

M. V. Sithole
Governor