30.01.2014 - Press Statement of Monetary Policy Consultative Committee (MPCC)

The Central Bank of Swaziland (Bank) in consultation with the Monetary Policy Consultative Committee (MPCC) held a meeting on 30th January 2014 to formulate its monetary policy stance.

According to the IMF's latest World Economic Outlook, global activity is expected to improve in 2014, largely on account of recovery in the advanced economies. Global growth is now projected to be slightly higher in 2014, at around 3.7 percent up from 3.1 percent in 2013, rising to 3.9 percent in 2015. The IMF has made downward revisions to growth forecasts in some economies highlighting continued fragilities as downside risks remain. In advanced economies, output gaps generally remain large and, given the risks, the monetary policy stance has remained accommodative while fiscal consolidation continues. Growth in the US and Euro-zone is projected to respectively strengthen to 1 percent and 2.8 percent in 2014 and 1.4 percent and 3 percent in 2015, but the recovery will be uneven. In emerging market economies, increased financial market and capital flow volatility remain a concern given that the Fed had started its tapering program going into 2014.

In the region, South Africa's economic growth rate has not gained any significant momentum in the fourth quarter of 2013. The SA growth rate was constrained by the economic fragility in Europe, its major trading partner, and was further undermined by the twin deficits, high unemployment, industrial unrests, and slow progress in attracting Foreign Direct Investment. The outlook for growth remains precarious largely due to the wage negotiation difficulties particularly in the platinum mining sector accounting for over 70 percent of global platinum output. The FED's tapering of its Quantitative Easing program has put pressure on most emerging economies' exchange rates particularly those with current account deficits. The IMF revised the outlook for South Africa for 2014 lower to 2.8 percent from 2.9 percent. Mining output contracted at a seasonal adjusted rate of 2.9 percent in November 2013 after posting a strong performance of 7.4 percent in October 2013. South Africa's GDP growth for 2013 is estimated around 2.0 percent. SA annual consumer inflation increased to 5.4 percent in December 2013 from 5.3 percent recorded in November largely due to higher prices of food and fuel. Furthermore, there seem to be signs of exchange rate pass-through as cost of imports increased in line with a weaker rand. The threats to inflation remains eminent aggravated by a persistently weaker local currency vis-à-vis other international currencies and rising food prices.

In Swaziland, economic growth remains subdued, tracking international and regional trends though signs of recovery from the 2011 slump are gradually emerging. Preliminary projections reflect that the real economy is likely to have expanded by over 2.5 percent in 2013 compared to a revised estimate of 1.9 percent in 2012. The notable growth in 2013 benefited from improvements in the secondary and tertiary sectors. The country's economic performance continues to be affected by external factors particularly the sluggish global economic growth outlook. The country's fiscal crisis which ravaged the country 2010-2011, has been mitigated by reasonable SACU inflows, as shown by the preliminary growth estimates for 2012. Going forward, however, prospects for both the primary and secondary sectors remain generally mixed in the medium term.

The mining sector maintained a positive momentum despite a quarter-on-quarter decline in the production of anthracite coal in the second and third quarter of 2013. Coal production declined by 20 percent to 54, 135 metric tonnes from 67,875 metric tonnes in the third quarter of 2013, due to a temporary technical production challenges experienced by the coal mine. However, comparing the first three quarters of 2013 to the same period the year before, coal production has risen by 95 percent. Quarried stone production continued charting an upward trend increasing from 85,176 to 86,480 cubic metres in the third quarter of 2013. Quarried stone production benefited from increased activity in the construction sector which is partly driven by government initiated road projects.

The annual consumer inflation remained unchanged at 4.4 percent in December 2013, the same rate recorded in November 2013. In the Swazi basket, food inflation rose slightly from 3.8 percent in November 2013 to 3.9 percent in the month under review, mainly driven by increases in the prices of meat products. In addition, the housing and utilities component, which carries a weight almost equivalent to the food component, rose by 0.2 of a percentage point to 5.4 percent in December 2013 from 5.2 percent the previous month, largely due to a 2.4 percent increase in prices for material of maintaining and repairing dwellings. Despite the observed favourable turn around in inflation the Bank has to stride cautiously in formulating its monetary policy. Inflationary pressures remain a major concern to the Bank whose main objective is to maintain price stability conducive to economic growth and development. The country remains susceptible to exogenous factors which are largely responsible for the hike in inflation and these have proven not to be responsive to downward movements in interest rate.

Looking ahead, the medium-term inflation outlook is uncertain, upside risk to the inflation forecast are eminent and real. International oil prices have somewhat stabilized albeit at relatively high levels, the depreciation of the Rand/Lilangeni exchange rate (noted for the most part of 2013 and early 2014) pose inflationary pressures to domestic inflation. Exchange rate movements are expected to have a lagged effect on inflation outcomes in the medium-term. Further pressure on overall inflation in 2014 is expected to emanate from a hike in electricity prices (SEC has proposed a 15 percent hike) as well as anticipated upward adjustments in fuel pump prices which have not been adjusted since February 2013. Additional upward pressure on domestic prices is likely to come from the on-going shortage of white maize in South Africa in view of the fact that Swaziland is a net import of white maize particularly from that country. On the other hand, the education index will exert further pressure on the 2014 inflation numbers following the reopening of schools during the month. Developments in South Africa, Swaziland's major trading and economic partner, are equally concerning with most fundamentals in that economy on a downward trajectory also aggravated by jaded growth prospects, twin deficits, labour unrests amongst other things.

Annual growth in credit extended to the private sector posted an increase to 21.6 percent in November 2013 compared to 11.8 percent recorded in September 2013. The upsurge in private sector credit was reflected in both credit extended to households and businesses. Credit extended to businesses rose by 10.9 percent in November 2013 compared to 7 percent recorded in September 2013. The expansion was discernible in the 'construction', 'manufacturing', 'agriculture' and 'community, social and personal services' sectors. An analysis of credit extended to households depicted an annual growth of 19.7 percent in November up from 14 percent increase recorded in October 2013. The household credit was largely extended for the acquisition of motor vehicles and other personal loans.

As at the 24th January 2014, gross official reserves amounted to E9, 252.2 million, down from E9, 345.7 million recorded in the week ending 17th January 2014. The contraction in the level of reserves was mainly on account of payment of government's external obligations coupled with an increase in Rand sales by the Central Bank to Commercial Banks. At this level, gross official reserves were enough to cover 4.6 months of estimated imports of goods and services, slightly lower when compared to 4.7 months cover registered in the preceding week.

The MPCC observing the challenges of balancing fragile nascent growth performance and inflation developments and the lacklustre regional and global economic growth prospects resolved to leave the discount rate unchanged at 5 percent. The core underlying rationale for the MPCC to maintain the rate unchanged was supported by the economic fundamentals in the local economy. These include the favourable inflationary developments, albeit seen to be temporary, coupled with the signs of emerging economic recovery, gradual surge in credit extension to the private sector and the incipient economic growth prospects. By maintaining the rate unchanged commercial banks are further encouraged to pass on the benefit derived from the prevailing low rates to their customers supporting the country's economic growth and development. The Bank will continue to monitor the developing inflationary pressures aggravated by the deteriorating exchange rate. It will remain vigilant to these and other inflationary pressures likely to emanate both from the rapidly emerging external and domestic shocks, and will not hesitate to take the necessary action at its disposal in order to ensure price stability supportive to economic growth and development.

M. V. SITHOLE

(GOVERNOR)