Monetary Policy Statement

19 January 2018

On 19 January 2018 the Central Bank of Swaziland (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance for the Bank in the upcoming two months.

The appropriate monetary policy stance was taken after considering the international, regional and domestic economic conditions, which the Bank envisaged would have an effect on its price and financial stability mandate.

The Bank decided to lower the discount rate by 0.25 per cent from 7.25 per cent to 7 per cent, effective 20 January 2018.

The underlying reasons for cutting the discount rate are discussed below:

Firstly, international economic conditions continue to show signs of sustained improvement since the last MPCC meeting in November 2017. The growth momentum is sustained in advanced and emerging markets whilst inflationary pressures in most of these countries is closer to targets. The South African economy is also seen to be improving in the latter quarters after a tough first half of 2017.

Secondly, domestic inflationary pressures have subsided whilst inflation forecasts also come down. Inflation decelerated to 4.7 per cent in December 2017 from 4.9 per cent in November 2017. The observed decrease in inflation was mainly driven by a decline in food inflation which decelerated from 3.5 per cent in November to 2.6 per cent in December 2017. Additional deflationary pressures emanated from slower increases in the price indices for furnishing, household equipment and routine household maintenance, which decreased from 3.5 per cent in November to 2.4 per cent in December 2017.

In 2017, inflation averaged 6.2 per cent, 0.32 per cent lower than the forecast average of 6.52 per cent for the year. Annual average inflation is forecasted at 5.6 per cent for 2018. On a quarterly basis, inflation is forecasted to average 5.37 per cent in the first quarter, 5.21 per cent for the second quarter, 5.4 per cent for the third quarter and 6.34 per cent for the fourth quarter. The volatile Lilangeni exchange rate against major currencies and the rising oil prices remain the main upside risks to inflation whilst the falling food prices pose a downside risk.

Thirdly, growth in the banking sector's credit to the private sector remained relatively subdued over the period under review. Annual growth in credit extended to the private sector stood at 4.8 per cent at the end of November 2017, lower than the 10.8 per cent increase recorded in September 2017. The slowdown in growth was attributed to slower increase in credit to all components when compared to data presented at the November MPCC meeting. Growth in credit extended to the Businesses slowed from 16.9 per cent in September to 11.4 per cent in November 2017. Similarly, growth in credit to Household sector slumped from 5.8 per cent in September to a meagre 1.2 per cent in November 2017. On the other hand, credit to Other Sectors declined by 7.8 per cent over the same period.

Lastly, as at 12 January 2018, the country's Gross Official Reserves amounted to E8.4 billion, reflecting a 21.2 per cent increase from the E6.93 billion recorded in December 2017. The growth in Reserves was mainly due to the quarterly inflow of the SACU receipts. At this level, the Reserves were sufficient to cover an estimated 4.1 months of imports of goods and services.

The Bank will continue to monitor developments that will influence the movement of inflation and reassures members of the public that it will act appropriately if there are significant changes to the inflation outlook.

Furthermore, the Bank reassures the public that the current monetary policy stance remains supportive to economic growth and employment creation.

The effective date for this discount rate (7 per cent) is 20 January 2018.

<u>M. V. Sithole</u>
Governor