Monetary Policy Statement

25 January 2017

On the 25th January 2017 the Central Bank of Swaziland (Bank), in consultation with the Monetary Policy Consultative Committee (MPCC), held a meeting to consider the appropriate monetary policy stance for the Bank.

The meeting considered international and regional economic conditions as well as developments in domestic economic fundamentals that affected ~~of~~ past inflation outcomes as well as posing risks to future inflation outcomes. After a lengthy discussion, and in view of the price stability mandate of the Bank, the Bank decided to increase the discount rate by 25 basis points to 7.25 per cent.

The underlying reasons to raise the discount rate were visible inflationary pressures in the last quarter of 2016, coming from persistently high food prices as a result of the drought. Consumer price inflation accelerated to 8.7 per cent in December 2016 rising from 8.6 per cent recorded November. The November inflation outcome was also a rise from the 8.2 per cent recorded in October. Food inflation rose from 17.5 per cent in October to reach 19 per cent in December. The annual average inflation outcome for 2016 is 7.8 per cent, 0.1 per cent higher than the Bank's forecast of 7.7 per cent.

Over the two-months under review, year-on-year growth in credit extended to the private sector increased by 15.5 per cent at the end of November 2016 after rising by 10.9 per cent in September. The increase in credit was reflected in both the Household and Business sectors. Credit to households rose by 22.1 per cent in November while personal loans increased by 59.2 per cent.

Growth in credit extended to Businesses turned around from -0.3 percent decline recorded in September 2016 to a rise of 4.4 per cent in November 2016. The rise in credit to Businesses was mainly noticeable in the rise in credit to the following sectors: Distribution & Tourism (mainly sugar), Community, Social & Personal Services and Mining & Quarrying sectors. However, a fall in credit was recorded in the 'Agriculture & Forestry', and 'Manufacturing and Construction' sectors.

Gross Official Reserves, as at 20 January 2017, were recorded at E8.7 billion, up from E7.7 billion recorded at the end of December 2016. The rise in reserves was mainly due to a E1.3 billion injection of quarterly SACU receipts. At that level, the reserves represented an estimated 4.2 months of imports of goods and services.

The inflation outlook for the first quarter of 2017 indicates that inflation outcomes will remain high. The projected average inflation for the period from January to March is 7.5 per cent. This projection takes into account recent favourable rains that have been received which are expected to help the country to record a better harvest in 2017 and as such reduce the acute food shortages. In addition, the inflation projections take into account the decision by the Bank to increase the discount rate during this period.

The Bank notes that upside risks to inflation persists. Notwithstanding the good rains, the Bank expects food inflation to remain high for the first half of 2017. Furthermore, the rise in international crude oil prices is expected to result in higher petrol prices in the country. Other threats to the inflation outlook include a possible rise in some government controlled prices, such as prices of bread, electricity, water as well as transport.

The Bank will continue to monitor developments that will influence the movements of inflation over the year and reassures the public that it will act appropriately if there are significant changes to future inflation outcomes. The monetary policy stance remains supportive to economic growth.

The effective date for this discount rate (7.25 per cent) is 26 January 2017.

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