Monetary Policy Statement

31 March 2017

On the 31st March 2017 the Central Bank of Swaziland (Bank), together with the Monetary Policy Consultative Committee (MPCC), met to consider the appropriate monetary policy stance for the Bank.

Considering the international, regional and domestic economic conditions, and pursuing its price and financial stability mandate, the Bank decided to maintain the bank rate at 7.25 per cent.

The decline in the country's annual consumer price inflation to 6.8 per cent in February 2017 from 8.2 per cent recorded in January 2017 is one of the underlying reasons for maintaining the discount rate. This decline was mainly driven by a fall in food and transport inflation. Food inflation decreased from 17.5 per cent in January 2017 to 12.8 per cent in February 2017. On the other hand, transport inflation dipped to 1.9 per cent in February 2017 from 8.4 per cent the previous month.

Year-on-year growth in credit extended to the private sector grew by 7.4 per cent in January 2017 on account of a rise in all its components, compared to a growth of 15.5 per cent at the end of November 2016. Credit extended to households rose by 8.7 per cent year-on-year in January 2017 from a rise of 22.1 per cent in November 2016. Credit to business grew by 6.1 per cent year-on-year in January 2017 compared to a 4.4 per cent increase in November 2016. The growth in credit to business was predominantly due to credit extended to distribution and tourism, agriculture and forestry, community, social and personal services and real estate subsectors.

Gross official reserves decreased by 8.7 per cent to stand at E7.5 billion at the end of February 2017 compared to January. The fall in reserves was mainly due to payment of Government's budgetary obligations combined with the appreciation of the Lilangeni exchange rate against major currencies over the period. The appreciation of the domestic currency has made reserves denominated in foreign currencies decline when valued in emalangeni terms. At this level, the reserves were enough to cover an estimated 3.6 months of imports, down from 3.8 months as at the end of January 2017. As at 24 March 2017, reserves stood at E6.9 billion with an import cover of 3.2 months.

The inflation outlook for the first quarter of 2017 is expected to average 7.5 per cent falling from an average of 8.5 per cent recorded in the last quarter of 2016. Inflation has fallen mainly due to the decrease of food and non-alcoholic beverages inflation. The upward risks to inflation are the increase in electricity prices by 15 per cent effective April 2017, higher international oil prices resulting from the OPEC agreed production cuts and the anticipated depreciation of the exchange rate resulting from the recent political developments in South Africa. These risks might water down the improvement in the food supplies. Inflation is expected to fall to an average of 7.4 per cent in 2017, compared to an average of 7.8 per cent recorded in 2016.

The Bank will continue to monitor the developments that will influence the movements of inflation and reassures members of the public that it will act appropriately if there are significant changes to the inflation outlook and other important factors. The Bank's monetary policy stance shall remain supportive to economic growth and employment.

M. V. Sithole
Governor