28.03.2014 - 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 28th March 2014 to formulate its monetary policy stance.

The global economic outlook remains unbalanced with some of the advanced economies returning to growth, while others continue to lag behind. According to the IMF's latest World Economic Outlook, global growth is expected to improve in 2014, largely on account of recovery in the advanced economies. Downside risks to global growth prospects still dominate: while old risks remain, new risks have emerged, including the US Federal Reserve (FED) tapering its quantitative easing (QE) program culminating in currency volatility in most emerging markets. Growth in the US and Euro-zone is projected to respectively strengthen to 2.8 percent and 1 percent in 2014 and 3 percent and 1.4 percent in 2015, but the recovery will be uneven. Many countries in the Euro-zone continue to register lacklustre growth rates. In emerging market economies, increased financial market and capital flow volatility remain a concern since the Fed had started its tapering program. Growth momentum in emerging countries which has been the main driver of global economic growth, continued to be fragile given the weakening external demand.

The South African economy continued to record subdued growth rates and the outlook remains precarious, due to persistent weaknesses in the exchange rate and external balances. South Africa's real GDP growth rose to 3.8 percent in the last quarter of 2013 from 0.7 percent in the third quarter, on a quarter-to-quarter basis (seasonally adjusted annualised). The improved performance of the RSA economy largely benefited from higher value added in the mining, manufacturing and agriculture sectors. Consumer inflation surged to 5.9 percent year-on-year in February from 5.8 percent in January 2014. The main drivers of the monthly increase were food, non-alcoholic beverages and transport inflation. SA inflation is likely to continue charting an upward trend and to breach the upper band of the SARB target (6 percent) in the second quarter of the year and remain above for some months. The biggest risk to consumer inflation remains the volatile currency, high wage settlements and food prices.

In Swaziland, whilst growth performance urged upwards, albeit marginally, it remained in line with international and regional trends. Economic activity is estimated have recorded a slight recovery in 2013. Preliminary estimates reflect that the real economy is likely to have expanded by 2.8 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. Despite the country's fiscal crisis, which adversely affected the tertiary sector in particular in 2011/12, there is a positive growth trend for the subsequent years (2012-2013). However, going forward, prospects for both the primary and secondary sectors remain generally precarious and mixed in the medium term. We will proceed with cautious optimism.

The mining sector maintained a positive impetus despite a quarter-on-quarter decline in the production of anthracite coal in the last quarter of 2013. Coal production declined by 22 percent to 42, 023 metric tonnes in the fourth quarter of 2013 from 54, 135 metric tonnes in the previous quarter, due to temporary technical production challenges experienced by the coal mine. Quarried stone production also declined by 30 percent to 60, 781 cubic metres in the fourth quarter from 86, 480 cubic metres in the third quarter of 2013. The decrease in quarried stone production was mainly due to an early closure for the December holidays by most construction companies.

Swaziland's headline inflation grew by 4.7 percent in February of 2014 increasing from 4.4 percent recorded in the previous two months (December/January). Inflationary pressures came from growth in the price indices for 'food and non-alcoholic beverages' and 'Housing and utilities'. Food inflation averaged 4.6 percent in January and February 2014 increasing from 3.9 percent in December 2013. Increases in the price index for 'food and non-alcoholic beverages' were mainly driven by increases in the prices of fruits, vegetables and meat products. The housing and utilities component, which carries a weight almost equivalent to that of the food component, rose slightly to 5.5 percent in February from 5.4 percent the previous month, largely due to increases in the prices of solid fuels. In addition, transport inflation charted an upward trend in February; a trend likely to be sustained following increases in domestic fuel prices. Fuel prices were raised by 90 cents per litre in March 2014 after remaining unchanged since January 2013. The effects of this increase will be reflected in the March inflation report. Inflationary pressures remain a major concern to the Bank whose main mandate is to maintain price stability conducive to economic growth and development. The country remains vulnerable 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 risks to the medium-term inflation outlook remain on the upside both from external and domestic factors. On the domestic front, administered prices on electricity, fuel and public transport services present inflationary pressures in the medium term. The Swaziland Energy Regulatory Authority (SERA) has approved a 9.5 percent tariff hike that is expected to come into effect in April 2014. Significant increases in fuel prices in March 2014, and anticipated further upward adjustments in fuel prices in the medium term have revived pressure on the proposed 50 percent increase in public transport fares which have been tabled for debate in parliament in March 2014. On the external front, the exchange rate is the main threat to inflation developments. The Lilangeni/Rand exchange rate to the US dollar has breached the E10 mark since June 2013 raising fears that it will, over time manifest in higher inflation rates. In addition, 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 weak growth prospects, twin deficits, labour unrests amongst other things.

Annual growth in credit extended to the private sector increased by a slower 16.1 percent in February 2014 compared to 21.1 percent recorded in December 2013. The growth in private sector credit was reflected in both credit extended to households and businesses on an annual comparison. Credit extended to businesses rose by 12.4 percent in February 2014 compared to 19.7 percent recorded in December 2013. The increase was discernible in the 'construction', 'agriculture', 'distribution and tourism' and 'community, social and personal services' sectors. An analysis of credit extended to households depicted an annual growth of 25.5 percent in February up from 20.9 percent increase recorded in December 2013. The household credit was largely extended for the acquisition of motor vehicles and other personal loans.

As at the 21st March 2014, gross official reserves amounted to E8, 042.3 million, down from E8, 219.4 million recorded in the week ending 14th March 2014. The contraction in the level of reserves was mainly on account of payment of government's external obligations. At this level, gross official reserves were enough to cover 4 months of estimated imports of goods and services, slightly lower when compared to 4.1 months cover registered in the preceding week.

The MPCC, observing the challenges of balancing fragile nascent growth performance and inflation developments and the uninspiring 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 improvement 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.

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