

Monetary Policy Statement

31 March 2018

On the 29 March 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 for the upcoming two months.

The appropriate monetary stance was taken after considering 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 cut the discount rate by 25 basis points from 7 per cent to 6.75 per cent, effective 31 March 2018.

The underlying reasons for the cut in the discount rate are enumerated below:

Global economic activity continues to firm up owing to an increased momentum in global growth and the expected impact in U.S. tax policy changes that have been recently approved. On the other hand, inflation in advanced economies continues to be on an upward trajectory, with inflation rates above set targets due to inflationary pressures emanating from increasing oil prices. Under regional developments, growth in South Africa firmed up from 2.3 per cent in the third quarter 2017 to 3.1 per cent in the last quarter. Furthermore, consumer inflation moderated to 4 per cent in February 2018 from 4.4 per cent in January 2018, and is expected to average 4.9 per cent in 2018 due to the stronger exchange rate. This demonstrates that inflationary pressures have moderated somewhat.

Domestic consumer prices continued on a downward path, with headline inflation declining to 4.0 per cent in February 2018 from 4.6 per cent in January 2018. The slowdown in consumer prices mainly benefitted from slower increases in the price indices for 'food and non-alcoholic beverages', 'transport' and 'clothing and footwear'.

As inflationary pressures continued to moderate in the opening two months of 2018, the Bank revised downwards its forecasts to reflect an average of 5.41 per cent for the

year 2018, from the previous forecast of 5.61 per cent. The Bank expects inflation to moderate to 4.93 per cent and 5.21 per cent in the first and second quarter of 2018 respectively. The proposed increase in Value Added Tax (VAT), rising oil prices and adjustment of administered prices pose upside risks to the inflation outlook.

Growth in the private sector credit has shown significant improvement since the last seating of the Committee. Year-on-year credit extension to the private sector grew by 12.7 per cent at the end of February 2018, higher than the 8.9 per cent growth recorded in December 2017. This was boosted by the accommodative monetary policy stance pursued by the Bank since January 2018.

As at 23 March 2018, the country's reserves were at E6.6 billion, equivalent to 3.3 months of imports of goods and services. The country's reserves have remained above the recommended 3 months of imports of goods and services.

The Bank will continue to monitor 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. The Bank further reassures the public that the Bank's monetary policy stance remains supportive to economic growth and employment creation.

The effective date for this bank rate (6.75 per cent) is 31 march 2018.

Majozi V. Sithole

GOVERNOR