

Monetary Policy Statement – May 2015

The Central Bank of Swaziland (Bank) in consultation with the Monetary Policy Consultative Committee (MPCC) held a meeting on 22nd May 2015 to formulate its monetary policy stance.

Considering the international, regional and domestic economic conditions, the Bank in consultation with the MPCC and pursuing its price stability mandate, decided to increase the Bank rate by 25 basis points to 5.5 percent. The underlying rationale for the Bank to increase the Bank rate was the increase in inflation, eminent inflationary pressures emanating from the emerging exogenous factors including the regional drought, deteriorating exchange rate, and gradual rise in the international price of oil. Furthermore the US Federal Reserve's intentions to tighten its monetary policy stance and the effects of upward surge in local administered prices, particularly the price of energy are additional factors that have been considered by the MPCC in its decision. The policy decision has also been necessitated by the desire to harmonize interest rates within the Common Monetary Area region, particularly with South Africa, where huge interest rates differentials are likely to encourage capital outflows.

The annual headline inflation rose marginally to 4.9 percent in April 2015 from 4.7 percent in March 2015. The increase in inflation was mainly driven by increases in the price indices for 'housing and utilities', 'transport' and 'education'. The price index for 'housing and utilities' increased to 3.2 percent in April 2015 from 3.0 percent in March 2015 due to increases in the actual rentals for housing. Transport inflation also increased to 8.4 percent in April 2015 from 8.1 percent recorded in the previous month as a result of an increase in prices for spare parts and accessories for personal transport equipment. The price index for 'education' accelerated to 5.6 percent in April 2015 from 4.7 percent in March 2015 due to increases in secondary education related fees. Further increases were noted in the price indices for 'communication' and 'miscellaneous goods and services'.

Annual growth in credit extended to the private sector decreased from 11.9 percent in January 2015 to 9.0 percent in March 2015. The declining growth in credit extension was evident in the business sector while household credit expanded moderately. Credit extended to the business sector grew by 4.0 percent compared to 11 percent recorded in the previous review period. The slow growth in credit to businesses was notably reflected in the "Manufacturing" and "Community, Social & Personal Services" sectors. The Bank remains concerned about the continued deteriorating levels in credit extended to the private sector, particularly for investment purposes, despite the Bank maintaining an accommodative monetary policy stance.

As at 15th May 2015, the country's gross official reserves stood at E8.3 billion, depicting a 4.2 percent decline from the preceding week. At this level, gross official reserves were enough to cover 3.6 months of estimated imports of goods and services. This is above the internationally acceptable threshold of 3 months. The contraction in reserves was a combined effect of net rand sales to domestic commercial banks and payment of government's external obligations.

Looking ahead, the exchange rate depreciation and increases in administered prices remain the upside risks to inflation in the medium term. The Fed is expected to increase its rate which will appreciate the value of the US Dollar, thus leading to Rand/Lilangeni depreciation. On administered prices, the Swaziland Electricity Company which applied for a 10.5 percent tariff increase to the Swaziland Energy Regulator Authority was granted 11.7 percent. This is 2.2 percentage points higher than what was approved the previous year. South Africa, the largest producer in the region, from which Swaziland sources its maize imports, recorded a 33 percent decrease in maize production in 2014/15 harvesting season. As a result maize prices are expected to increase by more than 30 percent. In addition, the Swaziland Water Services Corporation has applied for a 7.2 percent tariff increase for three years but this increase is yet to be approved by the Cabinet.

M. V. Sithole
Governor