Monetary Policy Statement

26 May 2017

On the 26th of May 2017 the Central Bank of Swaziland (the Bank), together with the Monetary Policy Consultative Committee (MPCC), held a meeting to consider the appropriate monetary policy stance for the Bank.

Considering international, regional and domestic economic conditions, and pursuing its price and financial stability mandate, the Bank decided to maintain the discount rate at 7.25 per cent, effective 27 May 2017.

The underlying reasons to keep the discount rate unchanged are enumerated below. The MPCC noted that the global economy's recovery was gaining momentum. Such a recovery will positively support export demand for the country's products which will lead to economic growth and development.

Year-on-year growth in credit extended to the private sector increased by 7.0 per cent at the end of March 2017 compared to 7.4 per cent recorded in January 2017. Growth in credit to the Business sector sustained its upward trend since November 2016. On a year-on-year basis, credit extended to the Business sector expanded from a growth of 6.1 per cent in January 2017 to grow by 14.2 per cent in March 2017. However, credit to the Household sector only rose by 4.7 per cent in March 2017 from a high of 22 per cent in November 2016.

The persistent increase in credit to the private sector showed that the monetary policy stance adopted by the Bank remained accommodative and as such supportive to the observed improving economic conditions.

The Committee was concerned about the recent rise in the inflation. April figures indicate that inflation rose by 1.0 per cent compared to March 2017 to reach 7.0 per cent. The rise came as a result of a 7.2 per cent, 15 per cent and 10 per cent increase in prices of water, electricity and housing respectively, which combined contribute a 29.15 per cent in the basket of goods considered in the calculation of the consumer price index.

MPCC members further noted that food prices continued to rise, albeit at a slower rate, in line with the Bank's expectations. For the first time in 15 months, food inflation was recorded at 9.4 per cent in April 2017 from 10.3 per cent in March 2017. This reflects that the negative effects of the drought that prevailed throughout 2016 are fading. With the expected good harvest, food inflation will return to normal levels over the year.

The Bank views the inflationary pressures continuing to moderate somewhat over the course of the year. It forecasts inflation to average 7.27 per cent for the year, against a previous forecast of 7.36 per cent. This is on account of a moderation in food inflation but risks remain, especially on administered prices.

The MPCC further noted with concern that the country's reserves position was weakening. As at 19 May 2017, the reserves were at E7.2 billion, indicating a E1 billion decline from the end of April 2017 levels. This was enough to cover an estimated 3.4 months of imports of goods and services and remained above the internationally recommended benchmark of 3 months.

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 reassures the public that the Bank's monetary policy stance shall remain supportive to economic growth and employment.

The effective date for this bank rate (7.25 per cent) is 27 May 2017.

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