22.11.2013 - 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 22nd November 2013 to formulate its monetary policy stance.

Global growth according to the IMF's latest World Economic Outlook, remains subdued in tandem with modest growth in some major advanced economies. The slow pace of global economic performance has prompted the IMF to further revise downwards global economic growth prospects for 2013 to 3.1 percent from 3.3 percent. Advanced economies are growing again but must continue financial sector repair, pursue fiscal consolidation, and spur job growth. Many countries in the Euro-zone continue to register lackluster growth rates. In the face of weakening external demand, growth momentum in emerging countries which has been the main driver of global economic growth, continued to be fragile. Emerging market economies face dual challenges of slowing growth and tighter global financial conditions. Most economies continue to face a trade-off between macroeconomic policies to support weak activity and deal with the recent Federal Reserve's stance not to taper the US stimulus program.

In the region, South Africa's economic growth rate has been undermined by the economic weaknesses in Europe, its major trading partner, and was further exacerbated by high unemployment, industrial unrests, and slow progress in attracting Foreign Direct Investment, amongst other things. The outlook remains precarious given the sustained widening current account deficit and depreciating exchange rate and significant downside risks both internationally and locally. The South African economy continued to notch sluggish growth rates with the third quarter 2013 annualised growth rate at 1.4 percent largely due to the contraction of the key, agricultural, mining and manufacturing sectors. South Africa's GDP growth for 2013 is estimated around 2.0 percent. SA annual consumer inflation eased to 5.5 percent in October 2013 from 6.0 percent recorded in September largely due to lower prices of food and fuel. Furthermore, there seem to be signs of exchange rate pass-through as cost of imports increased in line with a weaker rand. Upside risks to the inflation outlook are exacerbated by the persistently weak local currency vis-à-vis other international currencies.

Domestic economic growth remains subdued, tracking international and regional trends though signs of recovery from the 2011 slump are gradually emerging. Revised provisional estimates reflect that GDP growth rose to 1.7 percent in 2012 compared to a 0.6 percent decline in 2011. The economy is expected to perform better in 2013 mainly driven by a rebound 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 and internal developments. Despite that the country's fiscal crisis, which had severely affected the tertiary sector in 2011-12, has been partially resolved as shown by the positive growth in 2012, growth prospects for both the primary and secondary sectors remain generally unbalanced in the medium term.

On a positive note, the mining sector maintained a positive momentum despite a quarter-on-quarter decline in the production of anthracite coal in the second quarter of 2013. Quarried stone production continued charting an upward trend increasing from 85,176 to 86,480 cubic metres in the third quarter of 2013. Quarried stone production benefited from increased activity in the construction sector which is partly driven by government initiated road projects. Coal production declined by 20 percent to54, 135 metric tonnes from 67,875 metric tonnes in the third quarter of 2013, due to a temporary technical production challenges experienced by the coal mine.

Swaziland's annual headline inflation rate decelerated to 4.7 percent in October 2013 from 5.7 percent in September 2013. The downward trend is attributed to a decline in food inflation, which carries the largest weight in the consumption basket; from 5.8 percent in September 2013 to 4.0 percent in October 2013. Transport inflation also significantly decreased to 1.4 percent in October from 4.1 percent recorded in September 2013, benefiting from sustained base effects as fuel prices remain unadjusted in since the beginning of 2013.

Despite the observed decline in inflation the Bank has to tread carefully in formulating its monetary policy as the fall in inflation is not strongly supported by economic fundamentals. Inflationary pressures remain a major concern to the Bank whose main objective is to maintain price stability conducive to economic growth and development. The exogenous factors responsible for the hike in inflation have proven not to be responsive to downward movements in interest rate.

Looking ahead, oil prices and the depreciation of the Lilangeni/Rand exchange rate continue to pose an upside risk to the inflation outlook. However, inflationary pressures are expected to be somewhat contained following the slowdown in the food component in the index. However, the non-adjustment of the prices of petroleum prices throughout the better part of 2013 may entail adjustment in the CPI going forward. The high base effects partially resulting from the once-off effect of VAT (which was implemented in April 2012), will result in a downward bias on observed inflation in 2013.

Annual growth in credit extended to the private sector posted an increase of 11.8 percent in September compared to the 4 percent recorded in July 2013. The upsurge in private sector credit was reflected both in credit extended to households and businesses. Credit extended to businesses reached 7 percent in September, slightly higher than the 6.7 recorded in July 2013, a significant growth from a negative growth of 3.4 percent recorded in May 2013. The expansion in credit extended to the private sector was discernible in manufacturing and agriculture and forestry sectors. An analysis of household credit depicted an annual growth of 14 percent in October up from 12.4 percent recorded in September 2013. Year–on-year credit extended for the purchase of motor vehicles turned around from negative 1.3 percent in July to 1.8 percent in September 2013.

As at 15th November 2013, gross official reserves amounted to E8, 320.3 million, lower than the E8, 416.9 million recorded in the week ending 8th November 2013. 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 4.8 months of estimated imports of goods and services, and were well above the internationally acceptable threshold of 3 months.

Taking into consideration both the international, regional and domestic economic conditions, the Bank in consultation with the MPCC decided to maintain the discount rate unchanged at 5.0 percent. The main underlying rationale for the MPCC to maintain the rate unchanged was that, despite the favourable turn around in inflation, albeit seen to be temporary, coupled with the signs of recovery gradually emerging on credit extension to the private sector, the expected impetus to economic growth has not yet been fully achieved. 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 remain vigilant to inflationary pressures likely to emanate both from external and domestic factors, and will not hesitate to take the necessary action at its disposal in order to ensure price stability.

M. V. SITHOLE

(GOVERNOR)