Monetary Policy Statement – September 2015

On 24th September 2015 the Central Bank of Swaziland (Bank) with the Monetary Policy Consultative Committee (MPCC) held a meeting to formulate its monetary policy stance.

Considering the international, regional and domestic economic conditions, and pursuing its price stability mandate, the Bank decided to maintain the Bank rate at 5.75 percent. The underlying rationale for the Bank to maintain the Bank rate was the decline in annual headline inflation to 4.8 percent in August 2015 from 4.9 percent in July 2015 coupled with moderate growth in credit extended to the private sector. Furthermore Swaziland's growth is projected to slow down to 1.7 percent in 2015 from 2.4 percent in 2014. The continued slowdown in economic activity is expected to emanate from poor performance in the primary sector and a loss of momentum in the tertiary sector. Furthermore growth in 2015 will be negatively affected by the anticipated economic slowdown in South Africa, the country's largest trading partner.

The marginal decline in inflation was attributed to slower growth in the price indices for 'housing and utilities' and 'healthcare'. The price index for 'housing and utilities', slowed to 5.7 percent in August 2015 from 6.0 percent in July 2015, benefitting from decreases in the prices for gas and solid fuels. Healthcare inflation decreased significantly from 4.2 percent in July 2015 to 1.5 percent in August 2015 mainly due to a reduction in the outpatient services prices. Further decreases were observed in the price index for 'clothing and footwear', which declined from 7.8 percent in July 2015 to 7.1 percent in August 2015.

Annual growth in credit extended to the private sector picked up to 8.4 percent in July 2015 from a lower growth of 7.7 percent recorded in May 2015. The expansion in credit extension was discernible in the financial corporations whilst credit to the major categories: business and household sectors decelerated. Credit extended to businesses declined from 2.1 percent in May to negative 2.6 percent in July 2015. The fall in credit to businesses was largely reflected in the 'Construction', 'Agriculture & Forestry' and 'Mining and Quarrying' sectors. The Bank remains concerned about the continued low levels in credit extended to the private sector, particularly for investment purposes, despite the Bank maintaining an accommodative monetary policy stance.

As at 18th September 2015, the country's gross official reserves stood E7.8 billion, depicting a 2.3 percent decline from the preceding week. At this level, gross official reserves were enough to cover 3.4 months of estimated imports of goods and services, above the internationally acceptable threshold of 3 months. The contraction in reserves was on account of payment of government's external obligations.

Looking ahead, inflationary pressures are likely emanating from exogenous factors such as the regional drought, deteriorating exchange rate and international price of oil. Inflationary pressures are also expected to emanate from the second round effects of the approved 7.2 percent tariff increase for the Swaziland Water Services Corporation and the 10.5 percent hike in electricity tariffs for Swaziland Electricity Company. South Africa, the largest producer, 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.

The Bank will continue to monitor the developing inflationary pressures aggravated by the deteriorating exchange rate and the recent hike in administered prices. It will not hesitate to take the necessary action at its disposal in order to ensure price stability supportive to economic growth and development.

Therefore, by maintaining the rate unchanged commercial banks are encouraged to pass on the benefit derived from the prevailing low rates to their customers supporting the country's economic growth and development.

M. V. Sithole
Governor