Monetary Policy Statement

23 September 2016

On 23 September 2016 the Central Bank of Swaziland (Bank) with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance for the Bank.

Considering domestic, regional and international economic conditions and pursuing its price and financial stability mandate, the Bank decided to keep the bank rate unchanged at 7.0 per cent.

The Bank notes that inflation outcomes took a negative path in August. After two successive months of decline, inflation outcomes came at 8 per cent from 7.4 per cent in July, a 0.6 per cent rise. The Bank considers the increase in inflation as temporary. Salary increments above average inflation contributed significantly to the inflation outcomes. Further, food inflation also contributed to the inflation increase by coming in at 17.4 per cent in August 2016, about 2 per cent higher than observed in July. Government policy that restricted food imports in the midst of acute shortages in the country, was a recipe for local suppliers to increase food prices. Supportive government policies for the importation of food items would help alleviate pressure from food price inflation in the near term.

Further supporting the Bank's monetary policy decision was the improvement in the inflation outlook. Inflation projections for the rest of 2016 have improved by 0.4 per cent from an average annual rate of 7.7 per cent to 7.3 per cent in the September 2016 forecasts. The outlook is improving due to the strengthening of the Lilangeni against other currencies and low oil prices. The volatility of the exchange rate and food shortages though remain key risks to the inflation outlook.

The monetary policy stance should be seen as supportive to growth in credit extended to Businesses which has seen a turnaround from falling to attain 2.8 per cent increase in July 2016. Such support to the business sector is critical particularly given the revised projections of -0.6% economic growth for 2016. As at 16th September 2016, the country's Gross Official Reserves amounted to 3.6 months of import cover. Fiscal stability remains a threat to the level of reserves and the exchange rate parity with the Rand, which is critical in supporting the Bank's monetary policy stance.

The Bank will continue to monitor the developments and will act accordingly to fulfil its mandate of price and financial stability cognizant of economic growth. The downward inflation path has been attained by the earlier implemented increases in the discount rate.

The effective date for this bank rate (7.0 per cent) is 24 September 2016.

M. V. Sithole
Governor