PRESS STATEMENT OF MONETARY POLICY CONSULTATIVE COMMITTEE

The Central Bank of Swaziland (Bank) in consultation with the Monetary Policy Consultative Committee (MPCC) held a meeting on 13 May 2011 to formulate its monetary policy stance.

Whilst the world economic recovery continues, more or less as predicted by the IMF, it remains punctuated by uneven recoveries with growths in advanced economies faced with uncertainty following the need for fiscal consolidation and risks posed by higher commodity prices. In most advanced economies, output is still far below potential with unemployment still high, and low growth implies that it will remain so in the medium to long term. In emerging market economies, by contrast, the crisis left no lasting wounds evidenced by relatively strong growths with other countries' economies showing signs of overheating particularly in Asia and Latin America. Their initial fiscal and financial positions were typically stronger, and the adverse effects of the crisis were more muted. High underlying growths and low interest rates are making fiscal adjustment much easier. Exports have largely recovered, and whatever shortfall in external demand they experienced has typically been made up through increases in domestic demand.

In the region, South Africa's economic growth remained subdued compared to that of its counterparts in the emerging markets. Going forward, the composite leading business cycle indicator as compiled by SARB indicates that the recovery of the SA economy will continue. The manufacturing sector output has improved somewhat against the backdrop of positive business confidence recording a growth rate of 4.6 percent in March year-on-year compared with 5.7 percent in February 2011. Despite the positive growth, the level of output for the manufacturing sector still remains below levels attained prior to the global crisis. The mining sector has been subdued in the past months, falling by 1.4 percent on yearly basis in March. Positive household consumption growth as observed in the past few quarters appears to have been sustained however there are no signs of inflationary pressures coming from such expenditure. Consumer inflation accelerated in March, rising to 4.1 percent year-on-year from 3.7 percent in February, driven by higher food and fuel prices as well as increased services and housing costs. Producer inflation rose to 7.3 percent on yearly basis in March from 6.7 percent in the previous month, driven by higher commodity prices.

In Swaziland, the domestic economy is expected to remain subdued with upside risks expected from the persistent strength of the domestic currency which erodes the competitiveness of domestic exports in the world market. Furthermore, the implementation of the fiscal adjustment roadmap, although will yield positive results in the long-run, will in the short to medium term exert further pressure on the economy as government implements more expenditure cuts. This will impact negatively on the performance of the tertiary sector particularly services. Additionally, if the weak FDI inflows persist it is most likely to impact negatively on economic growth in 2011. The challenge for the country's authorities therefore is to pursue policies aimed at promoting economic growth and employment creation. Such policies should be conducive for attracting new FDI inflows as well as retaining existing businesses in the country. Notwithstanding the above, improvements in the agricultural, manufacturing and tourism sectors are expected. The manufacturing and tourism sectors are expected to benefit from the positive turn around in global demand, whilst the agricultural sector may benefit from increased production due to accessibility of water for irrigation purposes.

Annual Headline consumer inflation rose significantly in March 2011 to register a rate of 5.5 percent. This rate was 1.3 percentage points higher than February's annual rate of 4.2 percent. The major contributor to the increase in inflation in March was the 'food and non-alcoholic beverages' index. Further upward pressure on the general price level emanated from the 'transport' index. Inflation for the 'other' (excluding food and transport) component registered a slower growth in March from February's level. Prices for food and non-alcoholic beverages increased from 2.7 percent in February to 4.5 percent in March. Contributing to the increase in the food component were increases in the prices of bread and cereals, meat, oils and fats, fruit, food products, and coffee, tea and cocoa. Transport prices rose to 14.2 percent in March from 11.1 percent in February, largely influenced by increased cost of fuel and spare parts and accessories for personal transport. The cost of fuel was, on average, hiked by over 70 cents per liter in March following a similar hike in February. Outlook for inflation indicate that overall inflation will remain at single digits in the short to medium-term, mainly supported by a stronger domestic currency. The hikes in domestic fuel prices have so far been cushioned by a stronger exchange rate. Nonetheless, rising world oil prices remain an imminent risk to the inflation outlook. Domestic fuel prices were further increased in March and May 2011 whose impacts will surface in the coming inflation numbers. This, coupled with increases in administered prices, particularly electricity and higher wage settlements, is expected to exert inflationary pressures in the short to medium-term. Since electricity, wages and fuel are input costs for most manufacturers, service providers and retailers; an increase in the cost of this commodity is likely to result in price hikes in the other components in the consumer basket, most notably food.

Annual growth in credit to the private sector depicted an increase of 12.7 percent. The rise in domestic credit levels was reflected in both credit extended to households and businesses, which was slightly higher than the level of 12.3 percent recorded in January 2011. Annual growth in household borrowing recorded a lower increase of 4.3 percent in March 2011 compared to 6.1 percent in January 2011. Over the year credit extended to businesses recorded higher growth of 10.7 percent in March 2011, indicative of a positive response to the lower interest rate environment. Concerned about the not so impressive growths in credit extended to the business sector meant to resuscitate the ailing economy, the Bank had continuously pursued an accommodative monetary policy stance conducive to aid growth. An analysis of household credit by product showed an annual increase of 18.7 percent in housing finance. Year–on-year credit extended for the purchase of motor vehicles however recorded a contraction of 2.8 percent, with 'other' personal loans reflecting a decline of 17.7 percent over the period.

Gross official reserves amounted to E4, 028.3 million at the end of March 2011, depicting a fall of 4.2 percent over the month. The decline was mainly attributed to payment of government's external obligations and the appreciation of the rand/lilangeni exchange rate over the month. The gross official reserves were enough to cover 2.5 months of imports of goods and services compared to 2.9 months covered in January 2011 which is far below the internationally recommended level of 3 months. Compared year-on-year, gross official reserves declined by 33.6 percent. The persistent decline in reserves does not augur well for the country's parity with the South African rand as it poses a threat to maintaining the one-to-one peg with the South African rand and the level of confidence by markets on the country's ability to meet external obligations as well as to absorb external shocks.

Taking into consideration both the international, regional and domestic economic conditions, the Bank in consultation with the MPCC has decided to leave its discount rate unchanged at 5.5 percent. The Bank remains vigilant about upside risks to inflation coming from exogenous factors and developments in the global economic environment. The Bank, will, therefore, not hesitate to take the necessary actions at its disposal to ensure price stability.

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