

Monetary Policy Statement - January 2016

On the 29th of January 2016 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 increase the Bank rate by 0.5 percentage points from 5.75 percent to 6.25 percent. The underlying reason for the increase in the Bank rate was the increase in inflation to 4.9 percent in December 2015 from 4.5 percent in November 2015. Further explaining the rise in the Bank rate was the need to harmonise interest rates in the region.

The rise in annual inflation was due to increases in food prices during the month of December 2015. Food prices increased at a higher rate of 5.2 percent in December 2015 from 3.9 percent in November 2015. The increase in food inflation was mainly caused by increases in prices of meat, vegetables and cereal products. Another notable increase came from the prices of 'furnishing and household equipment' which rose by 5.4 percent in December 2015 due to increases in prices of non-durable household goods.

Credit extended to the private sector increased by 6.6 percent in November 2015, compared to 5.7 percent in September 2015. Contributing to the rise was credit to households which increased by 13.1 percent while credit to businesses fell by 0.2 percent in November 2015. Household credit growth was largely supported by increases in motor vehicle and housing finance. The fall in credit to the business sector was mainly recorded in the Agriculture & Forestry, Mining & Quarrying and Manufacturing sectors.

As at 22nd January 2016, the country's gross official reserves amounted to E9.4 billion, decreasing by 3.9 percent from the previous week. At this level, gross official reserves were enough to cover 4.2 months of estimated imports, notably above the internationally acceptable minimum of 3 months. The contraction in reserves was mainly a result of payment of government's external obligations.

Looking ahead, inflation is expected to increase in the second half of the year. Swaziland is likely to register a low harvest due to dry weather conditions experienced towards the end of 2015 and beginning of 2016. Food prices are also expected to continue rising in the medium term as harsh weather conditions had affected South Africa, the largest producer, from which Swaziland sources its maize imports. South Africa recorded a 33 percent decrease in maize production in 2014/15 harvesting season.

The Bank notes the low levels of economic growth in the economy, with GDP growth at 2.4 percent in 2014, falling to an estimated 1.7 percent in 2015 due to the drought and other factors. Furthermore, the Bank is concerned with the lower growth in credit extension to the private sector. Based on its

desire to support growth and the associated job creation as well as increase credit extension, the Bank's wish would be to avoid increasing the Bank rate. However, in an effort to avoid capital flight and reduce future inflation increases, the Bank has decided to take this rate decision. This is the minimum interest rate increase that the Bank would take to contain the rising inflation in the economy and the harmful effects of capital outflows due to a high interest rate differential.

The Bank will continue to monitor the developing inflationary pressures aggravated by both the regional drought and exchange rate depreciation, and it will not hesitate to take the necessary action at its disposal to ensure price stability supportive to economic growth and employment.

M. V. Sithole
Governor