

Monetary Policy Statement

21 July 2016

On 21 July 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 the international, regional and domestic 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 underlying reasons to keep the bank rate unchanged was the moderation in inflationary pressures. The inflation rate fell from a high of 8.5 per cent in April 2016 to 8.0 per cent in May 2016 before further falling to 7.5 per cent in June 2016.

The inflation projections for the rest of 2016 have been moderately revised upwards by 0.64 per cent, to average 7.7 per cent. These forecasts are moderating due to the expected improvement in drought conditions. However, over the forecast period (2016-2018), food inflation is expected to remain elevated. Moreover, South Africa the country to which the Lilangeni is pegged has kept the discount rate unchanged at 7 per cent.

Noteworthy is that, credit to the private sector grew by 10 per cent in May 2016 compared to May 2015. This is higher than the 9.3 per cent recorded in March 2016, compared to March 2015. The increase in credit was mainly supported by credit to Households which grew by 21.6 per cent while credit to Business declined by 9.0 per cent. The decline in credit to Business reflects a slowdown in economic activity as well as the adverse effects of the drought situation in the country.

Gross Official Reserves remain under pressure from the fiscal challenges faced. The current reserves are enough to cover over 4 months of imports of goods and services. This is above the recommended 3 months but lower than the regional target of 6 months.

The Bank will continue to monitor the developments that will influence the movements of inflation and reassures that it will act appropriately if there are significant changes to the inflation outlook.

The Bank reassures the public that the Bank's monetary policy stance shall remain supportive to economic growth and employment.

The effective date for this bank rate (7.0 per cent) is 23 July 2016.

M. V. Sithole

Governor