

Monetary Policy Statement

21 July 2017

On 21 July 2017 the Central Bank of Swaziland (Bank), together with the Monetary Policy Consultative Committee (MPCC), held a meeting to consider the appropriate monetary policy path for the Bank in the upcoming two months.

To arrive at the appropriate path of monetary policy, the Bank considered recent international, regional and domestic economic conditions, and especially how such affects the achievement of the Bank's mandate of ensuring both price and financial stability. The Bank decided to maintain the discount rate at 7.25 per cent effective 22 July 2017.

The underlying reasons to maintain the discount rate are enumerated below.

In June 2017, inflation eased slightly to 6.9 per cent down from 7.1 per cent in May 2017. This slowdown was a result of the continuous moderation in food inflation which remained in single digits for the third consecutive month. In June 2017, food inflation came in at 8.5 per cent against a higher level of 9.4 per cent in May 2017.

The Bank expects inflation to average above 7 per cent for 2017. This is mainly on account of upward revisions in prices of electricity, water and other administered items. Inflation expectations are softened by better harvest which will help further reduce food inflation over the remainder of the year. The general expectation that inflation will remain high for 2017 swayed the Bank to leave interest rates unchanged.

Over the period March to May 2017, the Bank has observed that credit extended to the private sector has been growing at a steady rate. Further, compared to May 2016, private sector credit extension grew by 6.5 per cent at the end of May 2017, slightly lower than the 7.0 per cent growth recorded in March 2017, when compared to March 2016. Growth in credit to the Business and Household sectors slowed whilst credit to 'Other Sectors' (mainly other financial corporations and local government) improved marginally. Compared to March and May 2016, credit extended to the Business sector maintained a double-digit growth but declined

from 14.2 per cent in March 2017 to reach 13.4 per cent at the end of May 2017. Growth in credit extended to the Household sector also came down from 4.7 per cent in March 2017 to 3.8 per cent at the end of May 2017.

The MPCC further noted that the country's reserves position was improving but remained under pressure because of the challenging financial situation faced by the Government. As at 14 July 2017, gross official reserves increased by 21.3 per cent to settle at E8.4 billion, up from the E6.9 billion observed at the end of June 2017. The increase in the level of reserves was mainly due to the quarterly Southern African Customs Union (SACU) revenue inflows. The reserves can cover an estimated 3.9 months of imports of goods and services.

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

Further, 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 is 22 July 2017.

M.V. Sithole

Governor