23.05.2014 - Press Statement of Monetary Policy Consultative Committee (MPCC)

The Central Bank of Swaziland (Bank) in consultation with the Monetary Policy Consultative Committee (MPCC) held a meeting on 23rd May 2014 to formulate its monetary policy stance.

According to the IMF's latest World Economic Outlook (WEO) global economic growth has broadly strengthened and it is expected to improve further in 2014–15, with much of the impetus coming from advanced economies. The global economic outlook remains mixed and unbalanced with some of the advanced economies returning to growth, and most emerging economies, previous drivers of growth, waning. Downside risks continue to dominate the global growth outlook, notwithstanding some positive developments in the United States, Japan, the United Kingdom, and Germany. While old risks remain, three caveats have re-emerged: augmented emerging market risks, risks to activity from lower-than-expected inflation in advanced economies, and geopolitical risks. Many countries in the Euro-zone continued to register subdued growth rates. In the face of weakening external demand, growth momentum in emerging countries which has been the main driver of global economic growth, remains tepid.

In the region, the South African economy continued to notch sluggish growth rates and the outlook remains precarious, due to protracted strikes, an early-in-the-year interest rate hike and electricity supply disruptions in the first quarter of 2014. South Africa's real GDP growth rose to 3.8 percent on a quarter to quarter basis (seasonally adjusted annualised) in the last quarter of 2013 from 0.7 percent in the third quarter, largely benefiting from higher value added in the mining, manufacturing and agriculture sectors. Real economic conditions deteriorated sharply in the first quarter of 2014 with contractions in both the mining and manufacturing sectors and going forward the outlook for growth remains subdued.

Annual consumer inflation rose to 6 percent in March 2014 from 5.9 percent in February 2014. The main drivers of the monthly inflation were transport and education prices. Producer price inflation rose to 8.2 percent in March from 7.7 percent recorded February 2014, driven by food, tobacco and beverages. In the short-term, SA inflation is likely to breach the upper band of the SARB target (6 percent) and remain at that level for some months. The major risk to consumer inflation remains the volatile currency, high wage settlements and food prices.

In Swaziland, economic growth remains precarious, tracking international and regional trends though positive signs of recovery from the 2011 slump are gradually emerging. Preliminary projections reflect that the real economy is likely to have expanded by 2.8 percent in 2013 compared to a revised estimate of 1.9 percent in 2012. The notable growth in 2013 benefited from improvements in the secondary and tertiary sectors. The country's economic performance continues to be affected by external factors particularly the sluggish global economic growth outlook. Going forward, however, prospects for both the primary and secondary sectors remain generally mixed in the medium term.

The mining sector maintained a positive momentum despite a quarter-on-quarter decline in the production of anthracite coal in the first quarter of 2014. Coal production declined to 40,972 metric tonnes in the first quarter of 2014 from 42,023 tonnes produced in the last quarter of 2013. The decrease in coal production was due to a combination of geological and technical challenges that were faced in the first quarter of 2014. On the positive, iron ore production grew by 5.1 percent to 262,524 tonnes in the first quarter of 2014 from 249,761 tonnes in the previous quarter. Quarry production increased by 3.6 percent to 62,993 cubic metres in the first quarter of 2014 from 60,781 cubic metres produced in the previous quarter. The increase in quarry production reflects positive performance in the construction sector.

The headline inflation for Swaziland accelerated to 5.1 percent in March 2014 after remaining unchanged at 4.7 percent in January and February 2014. Notable inflation pressures were observed in the price indices for 'transport' and 'food and non-alcoholic beverages'. Food inflation, which carries the largest weight in the consumption basket increased from 4.5 percent in February to 5 percent in March 2014, due to increases in the prices of meat, fruits and vegetables. Transport inflation also increased from 1.7 percent in February to 3.6 percent in March mainly driven by the 90 cents/litre increase in fuel prices, effected in March 2014. Further increases were observed in the price indices for 'clothing and footwear' which grew by 2.8 percentage points and 'alcoholic beverages and tobacco' which grew by 3.6 percentage points. In addition, the country remains vulnerable to exogenous factors which are largely responsible for the hike in inflation and these have proven not to be responsive to downward movements in interest rate.

Looking ahead, the short-term inflation outlook is uncertain with inflationary pressures expected to be on the upside due to the approval of 9.5 percent increment in electricity tariffs by Swaziland Energy Regulatory Authority (SERA) effected beginning of May 2014. Further upward pressure on overall inflation is expected to emanate from the long awaited fuel price adjustment effected in March 2014 coupled with the 25 percent hike in transport fares as approved by Parliament. Meanwhile, elevated international oil prices coupled with a weaker exchange rate continue to put pressure on domestic fuel prices to adjust upward. Since fuel and electricity are inputs cost (for manufacturers) their price increases will filter through to other components in the CPI basket. Hence, both from external factors and domestic factors, the Swaziland inflation outlook can be expected to deteriorate in the medium-term.

Annual growth in credit extended to the private sector accelerated by 20 percent in March 2014 compared to 15.6 percent recorded January 2014. Credit extended to businesses alone grew by 15.4 percent compared to 11 percent recorded in the previous review period. The expansion in credit to businesses was mainly discernible in the 'mining and quarrying', 'manufacturing' and the 'construction' sectors. An analysis of credit extended to the household sector depicted annual growth of 26 percent which was marginally lower than the 26.5 percent increase recorded in January 2014. The household credit was largely extended for the acquisition of motor vehicles and other personal loans.

As at the 16th May 2014, gross official reserves amounted to E8, 190.4 million, down from E8,487.2 million recorded in the week ending 9th May 2014. The contraction in the level of reserves was mainly on account of payment of government's external obligations. At this level, gross official reserves were enough to cover 4.1 months of estimated imports of goods and services, slightly lower when compared to 4.2 months cover registered in the preceding week.

The MPCC, observing the challenges of supporting the nascent economic growth performance crucial for job creation resolved to leave the discount rate unchanged at 5 percent, whilst noting the inflationary pressures going forward. The core underlying rationale for the MPCC to maintain the rate unchanged was supported by the country's economic fundamentals supported by the gradual improvement in credit extension to the private sector and the budding economic growth prospects. By maintaining the rate unchanged commercial banks are further encouraged to pass on the benefit derived from the prevailing low rates to their customers supporting the country's economic growth and development. The Bank will continue to monitor the developing inflationary pressures aggravated by the increment in electricity tariffs, the recent upward fuel price adjustment and the hike in public transport fares though mitigated by a firming exchange rate. It will remain vigilant to these and other inflationary pressures likely to emanate both from the rapidly emerging external and domestic shocks, and will not hesitate to take the necessary action at its disposal in order to ensure price stability supportive to economic growth and development.

M. V. SITHOLE

(GOVERNOR)