

Monetary Policy Statement – March 2016

On 18 March 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 25 basis points from 6.25 percent to 6.5 percent. The underlying reason to increase the bank rate was the 25 basis points increase of bank rates by the Reserve Bank of South Africa coupled with rising inflationary pressures as inflation increased from 5.6 percent in January 2016 to 7.3 percent in February 2016.

The rise in annual inflation was due to an increase of food and transport prices. Food prices increased at a rate of 10.5 percent from 6.6 percent in January 2016. The increase in food inflation was mainly driven by increases in prices of bread and cereal, oil, fats, fruit and confectionery. Another notable increase came from the price of 'transport' which rose 11.9 percent in February 2016 after a 1.6 percent reduction in January 2016.

Credit extended to the private sector increased slightly from 5.1 percent in December 2015 to 7.6 percent in January 2016. Contributing to the rise was credit to households which increased by 20.9 percent. Household credit growth was supported by increases in other personal, motor vehicle and housing finance. Dampening the rise in credit to the private sector was a 5.7% decline of credit to businesses. The negative credit growth rates to businesses were recorded for the Manufacturing, Agriculture and Forestry and the Real Estate sectors.

As at 11 March 2016, the country's gross official reserves were recorded at E8.5 billion, down from the E9.65 billion recorded in January. The gross official reserves were enough to cover 3.8 months of estimated imports of goods and services, above the internationally acceptable minimum of 3 months. The contraction in reserves was mainly a result of payment of government's obligations.

Looking ahead, the Bank is concerned about the inflation outlook which is expected to be on an upward path in 2016. Inflation is projected to be above the maximum target range of 6% for the better part of 2016. The inflationary pressures emanate from rising food prices as a result of the prevailing drought in the country and region as a whole. A shortage in maize supply in the domestic economy and in the region is expected to keep up the prices of maize/food which coincidentally weigh the highest in the consumer basket. Administered prices and the weak exchange rate are further expected to negatively affect the inflation outlook.

The Bank will continue to monitor the developments that will influence the movement of inflation and will not hesitate to act accordingly to curb unwarranted loss of value in the local currency coupled with sensitivity to the domestic economic growth and employment prospects. The Bank reassures that price stability remains supportive of economic growth and employment remains its major concern.

M. V. Sithole

Governor