

Monetary Policy Statement - May 2016

On 20 May 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 stability mandate, the Bank decided to increase the bank rate by 50 basis points from 6.5 percent to 7.0 percent. The underlying reasons to increase the bank rate were: rising inflationary pressures as inflation increased from 7.8 percent in March 2016 to 8.5 percent in April 2016; the need to harmonise interest rates in the region; minimise capital flight; harness adverse effects of increasing unsecured loans. Swaziland's inflation rate is the highest amongst Common Monetary Area members.

The rise in annual inflation was due to an increase of 'food and non-alcoholic beverages' and 'housing and utilities'. Food inflation increased from 13.5 percent to 15.3 percent mainly due to increases in prices of bread and cereals, meat and vegetables. On the other hand, the housing and utilities index grew by 6.4 percent in April 2016 from 5.0 percent the previous month largely due to increases in electricity tariffs which were hiked by 11.7 percent in April. Core inflation, which is Consumer Price Index excluding food and non-alcoholic beverages, fuel and energy also depicted an upward trend from 5.5 percent in March 2016 to 5.7 percent in April 2016.

Credit extended to the private sector increased from 6.8 percent in February 2016 to 9.3 percent in March 2016. Contributing to the rise was credit to households which increased by 20.4 percent. Household credit growth was supported by increases in other personal, motor vehicle and housing finance. Dampening the rise in credit to private sector was an 8.0 percent decline of credit to businesses. The negative credit growths to businesses were recorded for the Manufacturing, Agriculture and Forestry, Mining and Quarrying and Construction.

As at 13 May 2016, the country's gross official reserves were recorded at E8.6 billion down from E9.2 billion recorded in April 2016. The gross official reserves were enough to cover 4 months of estimated imports of goods and services, above the internationally acceptable minimum of 3 months. The contraction in reserves was mainly as a result of payment of government's obligations.

Looking ahead, the Bank is concerned about the inflation outlook which is expected to remain elevated for the rest of 2016. Inflation is expected to be above the maximum target range of 6 percent 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 the region as a whole. Administered prices and the weak exchange rate are further expected to negatively affect inflation for the rest of the year.

The current Bank rate differential between Swaziland and South Africa has seen capital move from Swaziland to RSA chasing better returns. The new rate increase will curb this outflow since the differential is eliminated.

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 unit coupled with sensitivity to the domestic economic growth and employment prospects. The Bank reassures that price stability remains supportive of economic growth and employment and remains its major concern.

M.V. Sithole
Governor