

Monetary Policy Statement

24 November 2017

On 24 November 2017 the Central Bank of Swaziland (Bank), together with the Monetary Policy Consultative Committee (MPCC), held a meeting to consider the appropriate monetary policy stance for the Bank for the upcoming two months.

The appropriate monetary policy stance was taken after a detailed look at international, regional and domestic economic conditions, which the Bank envisaged would have an effect on its price and financial stability mandate. The Bank decided to keep the discount rate unchanged at 7.25 per cent, effective 25 November 2017.

The underlying reasons to keep the discount rate unchanged are enumerated below. In October 2017, inflation remained unchanged at 5.4 per cent, same as it was in September 2017 down from 5.9 per cent in August 2017. The Bank has observed continued moderation in food inflation since February 2017 which has contributed to better overall inflation outcomes. Food inflation further declined to 4.7 per cent in October 2017 from 4.9 per cent in September 2017, mainly driven by slower increases in the prices for 'fish and seafood', 'oils and fats' and 'fruit'. Additional deflationary pressures emanated from slower increases in the price indices for 'clothing and footwear' and 'miscellaneous goods and services'.

The Bank's inflation forecasts for 2017 remain unchanged at 6.52 per cent. Inflation in the third quarter of 2017 averaged 6 per cent, closer to the Bank's projection of 6.14 per cent. The Bank's forecast for the fourth quarter also remains unchanged at 5.96 per cent. The Lilangeni exchange rate against major currencies remains the main upside risk to inflation whilst the continuing moderation in food prices pose a downside risk to inflation.

Year-on-year, credit extended to the private sector grew by 10.8 per cent at the end of September 2017, indicating an improvement from the 6.2 per cent growth recorded in July 2017. The improvement was supported by accelerated growth in credit to the Businesses and Household sectors. Credit to Other sectors (other financial corporations, local government and parastatals) also increased but at a slower pace compared to the previous review period. Credit to the Businesses sector

grew strongly from 3.2 per cent in July 2017 to 16.7 per cent at the end of September 2017. The rise in credit to businesses was largely evident in the Agriculture & Forestry (mainly sugar cane and livestock & dairying), Mining & Quarrying (mainly coal) and Distribution & Tourism (mainly sugar) sectors.

Over the month ended October 2017, Gross Official Reserves increased to E8.5 billion from E7.2 billion in September indicating a E1.3 billion increase. As at 17 November 2017, the country's Gross Official Reserves stood at E8.2 billion reflecting a decrease of 0.3 per cent from the E8.5 billion recorded in October. The decline in Reserves was mainly due to an outflow of Rands coupled with revaluation losses resulting from the appreciation of the local currency over the review week. At this level, the Reserves were sufficient to cover 4.0 months of imports.

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

The effective date for this bank rate (7.25 per cent) is 25 November 2017.

M. V. Sithole

Governor