

Monetary Policy Statement

22 September 2017

On 22 September 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 in the upcoming two months.

The appropriate monetary policy stance was taken after considering improving global economic conditions, and better economic developments in South Africa and challenging economic conditions in the country.

The Bank opted to maintain the discount rate unchanged at 7.25 per cent effective 23 September 2017. This monetary policy stance will support price stability and broader financial sector stability.

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

The Bank noted that inflation outcomes are coming down from the highs recorded at the end of December 2016. But the MPCC members unanimously agreed the level of decline still needs to be monitored. Should the level be sufficient to warrant a change in the monetary policy stance, the MPCC indicated it would act accordingly at its next meeting. In August 2017, inflation decelerated to 5.9 per cent down from 6.7 per cent in July 2017. This slowdown was a result of the moderation in the costs of food, clothing and footwear, and miscellaneous goods and services. Food inflation moderated from 8 per cent in July 2017 to 5.9 per cent in August while clothing and footwear decreased from 6.2 per cent to 4.3 per cent. Miscellaneous goods and services inflation decreased from 5.7 per cent in July 2017 to 3.9 per cent August.

Furthermore, the inflation outlook has slightly improved. The forecast for 2017 has come down from 7.27 per cent to 6.52 per cent. Inflation forecasts for quarter three and four of 2017 have also been revised downwards to 6.13 per cent and 5.96 per cent from 7.2 per cent and 6.8 per cent in the third and fourth quarter, respectively. The lower inflation forecasts is partly due to a slowdown in domestic inflation. Significant risks remain on the upside. Oil prices have been increasing

and wage settlements have tended to be above inflation. These (and other) factors pose a threat to the inflation outlook.

Over the period June to July 2017, the Bank observed that borrowing by the private sector grew at a slower rate. Compared to July 2016, credit extension to the private sector grew by 6.2 per cent at the end of July 2017, slightly lower than the 6.5 per cent growth recorded in May 2017. Growth in credit to the businesses sector slowed down while credit to Households and 'Other' sectors (other financial corporations, local government and parastatals) increased. Growth in credit extended to the businesses sector declined from 13.4 per cent in May 2017 to 3.2 per cent at the end of July 2017. Growth in credit extended to the Household sector increased from 3.8 per cent in May 2017 to 5.6 per cent at the end of July 2017. Overall, the MPCC noted that growth in credit to businesses declined despite relatively lower interest rates.

The MPCC further noted that the country's reserves position was deteriorating. As at 15 September 2017 reserves were at E6.9 billion enough to cover an estimated 3.3 months of imports of goods and services. The rate of decline in the country's reserve position is a cause for concern. The Bank continues to work closely with Government to ensure that reserves remain above the international recommended benchmark of 3 months of imports cover.

The MPCC decided to keep the discount rate unchanged at 7.25 per cent and emphasised the need to monitor developments that will influence the movements of inflation in the next two months.

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 discount rate is 23 September 2017.

M. V. Sithole
Governor