MONETARY POLICY STATEMENT

18 January 2019

On the 18th of January 2019, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance for the country. The Bank decided to maintain the discount rate at 6.75 per cent.

This monetary policy stance was found appropriate after considering international, regional, and domestic economic conditions, which would have an effect on the Bank's price and financial stability mandate.

On the international front, global growth is expected to remain broadly favorable in the near term and moderate in the medium term. Growth is expected to average 3.7 per cent in 2018 and the forecast for 2019 remains unchanged at 3.7 per cent, with a weaker outlook for some key emerging market and developing economies. Uncertainty arising from trade tensions, geopolitical developments and excessive financial market volatility pose as main risks to the global growth outlook. Monetary policy in the global economy in general remains accommodative except in the US where the pace of tightening is expected to slow down.

The South African economy grew at a seasonally adjusted annualized 2.2 per cent quarter-on-quarter in the three months to September 2018, following a contraction of 0.4 per cent in the second quarter of 2018. Growth in South Africa is expected to average 0.7 per cent in 2018 before increasing to 1.7 per cent in 2019. Consumer prices rose to 5.2 per cent in November 2018 from 5.1 per cent in October 2018. Inflation forecasts have been revised downward for 2018 and 2019 with inflation expected to average 4.6 per cent in 2018 (down from 4.7 per cent) and 4.8 per cent in 2019 (down from 5.5 per cent), before increasing to 5.3 per cent in 2020 (down from 5.4 per cent).

On the domestic front, real GDP for is expected to contract by 0.4 per cent in 2018 from 1.9 per cent in 2017, mainly due to ongoing government cash flow challenges and the anticipated negative impacts on domestic exports destined to South Africa due to the weaker economic outlook for South Africa. GDP growth forecast for 2019 is at 1.7 per cent, increasing marginally to 1.8 per cent in 2020.

Annual headline inflation fell to 5.2 per cent in December 2018, from 5.3 per cent recorded in November 2018. The slight decrease in consumer inflation was mainly driven by decreases in the price indices for 'transport' and 'miscellaneous goods and services'. The average inflation for the year 2018 is 4.81 per cent, lower than the 5.16 per cent forecasted by the Bank for the year. The Bank has revised down the forecast for 2019 from the previously forecasted 5.99 per cent to 5.87 per cent on account of a huge decline in international oil prices and a moderately stronger exchange rate.

Credit extended to the private sector increased by 0.7 per cent month-on-month to reach E14.7 billion at the end of November 2018. The expansion was mainly driven by an increased demand for credit by households (in particular unsecured loans), businesses and other sectors. Compared to the same period last year, credit extended to the Private Sector depicted an increase of 6.2 per cent.

Gross Official Reserves declined by 3.5 per cent month-on-month to reach E6.9 billion at the end of November 2018. The fall was mainly due to the payment of Government's budgetary obligations during the month of November 2018. At this level, the reserves were enough to cover an estimated 3.1 months of imports of goods and services.

The Bank will continue to monitor developments that will influence the movements of inflation and reassures the public that it will act appropriately if there are significant changes to the inflation outlook. The Bank further reassures the public that the Bank's monetary policy stance remains supportive to economic growth.

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