CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

# MONETARY POLICY STATEMENT

## 25 MAY 2019

On the 24th of May 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 upcoming two months.

Despite domestic macroeconomic indicators supporting a more accommodative monetary policy stance, the Bank decided to maintain the discount rate at 6.75 per cent after considering the effect of global and regional factors coupled with more pronounced upside risks to domestic inflation in the coming quarter, which have an effect on the Bank's price and financial stability mandate.

On the global front, growth is seen weakening to 3.6 per cent in 2018 and the forecast for 2019 has also been revised down to 3.3 per cent (from 3.5 per cent). The Bank has also observed heightening uncertainty arising from trade tensions, geopolitical developments, declining business confidence, and relatively tight financial conditions across many economies which continue to pose downside risks to the global growth outlook. Inflation in advanced economies is now on an upward trajectory and global monetary policy remains largely accommodative except in the US.

The South African economy grew by a seasonally adjusted annualised 1.4 per cent quarter-on-quarter in the fourth quarter of 2018, following a 2.6 per cent growth in the third quarter of 2018. The South African economy is estimated to have grown by 0.8 per cent in 2018. The growth forecast for 2019 has been revised down to 1 per cent due to weak business and consumer confidence as well as mounting pressure on household disposal income. Inflation forecasts have also improved. Inflation is forecast to average 4.5 per cent in 2019 (down from 4.8 per cent), before increasing to 5.1 per cent in 2020 (down from 5.3 per cent) and moderating to 4.6 per cent in 2021 (down from 4.7 per cent).

On the domestic front, macroeconomic conditions are largely supporting a more accommodative monetary policy stance. Real GDP growth is still relatively sluggish, and is estimated to have grown modestly by 0.6 per cent in 2018 (from a previous estimated -0.4 per cent) compared to 1.9 per cent recorded in 2017. On a quarterly basis, GDP growth decelerated to 1.5 per cent in the last quarter of 2018 from 3.7 per cent in the third quarter. Economic activity is expected to remain modest at below 2 per cent in the short to medium term largely due to fiscal challenges that have necessitated stronger fiscal consolidation measures, which weigh heavily on domestic demand. This is further augmented by the weak external demand from major trading partners in the short term, particularly South Africa, which affects export-oriented manufacturing growth.

The Bank welcomes the historically low inflation of 1.8 per cent recorded in April 2019 coming down from 5.3 per cent in March 2019. This was mainly driven by lower increases in the price indices for housing and utilities which are as a result of the policy stance adopted by Government to freeze increases in utility prices in the last quarter of 2018. Housing and utilities inflation decreased from 13.9 per cent in March 2019 to 0.9 per cent in April 2019, due to high base effects in the price indices for 'electricity' and 'actual rentals for housing'. In line with the fall in inflation for April, the Bank's quarterly inflation is forecasted to average 1.92 per cent in the second quarter (from 5.18 per cent forecasted in March). However, due to the upside risks to inflation in the medium term arising from the likely implementation of a 15 per cent VAT on electricity, E1.20 per litre increase of the fuel levy, depreciation of the currency and an increase in oil prices in the third quarter of 2019, inflation is projected to increase to an average of 5.15 per cent. Inflation is expected to average 4.37 per cent in 2019, down from 4.81 per cent observed in 2018.

Credit extended to the Private Sector grew by 1.0 per cent month-on-month to reach E15 billion in March 2019. The turnaround was due to an increase in the demand for credit by Other Sectors and Businesses whilst Households depicted a lower appetite for credit over the review month. Compared year-on-year, Private Sector credit reflected an increase of 8.0 per cent. Credit extended to the Business Sector increased by 1.3 per cent to reach E6.8 billion in March from a 2.1 per cent decline observed in the previous month. Compared to March 2018, credit to the Business sector was 15.6 per cent higher.

The country's stock of reserves was reported at E5.1 billion as at 17 May 2019. The reserves were enough to cover an estimated 2.2 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.

**Majozi V. Sithole**
**GOVERNOR**

## INTEREST RATE

We have maintained interest rate at
**6.75%**

## INFLATION

Inflation has decreased from **5.3%** in March 2019 to **1.8%** in April.

## WHAT DOES THIS MEAN?

- Banks will continue charging the same interest rate on loans as the last two months.
- Overall, inflation changes indicate that the cost of goods and services increased at a slower rate in April 2019 than they did in the previous month.

## WHAT TO EXPECT

- Going forward, a lower increase in inflation is expected than previously estimated in March 2019.
- This means that the cost of goods and services will increase at a slower rate.

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